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No. 99-

IN THE

Supreme Court of the United States

YORK PRODUCTS, INC. and McCLARIN PLASTICS, INC.,

Petitioners,

v.

LRV ACQUISITION CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Court of Appeals for the Federal Circuit has jurisdiction to review an issue of alleged patent invalidity raised in a state law counterclaim against the patent holder for unfair competition?

2. Whether a patent holder in defense of a claim for unfair competition alleged under state law is entitled to the benefit of a federal presumption that his prior suit for patent infringement was filed in good faith with proof to the contrary required by clear and convincing evidence?

STATEMENT PURSUANT TO RULE 29.6

Neither Petitioner has a parent corporation and no publicly held company owns 10% or more of the stock of either Petitioner.

TABLE OF CONTENTS

	Page
Questions Presented	i
Statement Pursuant to Rule 29.6	ii
Table of Contents	iii
Table of Cited Authorities	v
Table of Appendices	xi
Opinions Below	1
Statement of Jurisdiction	1
Statement of the Case	1
A. The Proceedings and Facts	1
B. Briefly About Infringement and Invalidity	9
Reasons for Granting the Writ	12
The First Reason	14
The Second Reason	16
A. Prior to Creation of the CAFC a Duty Existed	16
B. It Is Clear That Patent Rights Can Be Abused	17

Contents

	Page
C. CAFC Decisions Have Negated State Rights	18
D. The Ninth Circuit Has Limited Handgards to Antitrust Claims to Preserve and Protect State Rights	21
E. Cases Since Loctite	25
F. A Clear Principle Is Needed That Only This Court Can Provide	27
Conclusion	30

TABLE OF CITED AUTHORITIES

Page

Cases:

Amsted Industries v. Buckeye Steel Castings, 24 F.3d 178 (Fed. Cir. 1994) 2

Cardinal Chemical Company v. Morton International, Inc., 508 U.S. 83, 113 S. Ct. 1967, 124 L. Ed. 2d 1 (1993) 12, 14, 29

Cataphote Corp. v. DeSoto Chemical Coatings, Inc., 450 F.2d 769 (9th Cir. 1971) 22, 23, 26

Coal Processing Equipment, Inc. v. Campbell, 578 F. Supp. 445 (S.D. Ohio 1981) 16

Concrete Unltd. Inc. v. Cementcraft, Inc., 776 F.2d 1537, 227 USPQ 784 (Fed. Cir. 1985) 26

C.R. Bard, Inc. v. M3 Systems, Inc., 157 F.3d 1340 (Fed. Cir. 1998), *reh'g denied*, 161 F.3d 1380, *cert. denied*, 143 L. Ed. 2d 1008 (1998) 25

Critikon, Inc. v. Becton Dickinson Vascular Access, Inc., 120 F.3d 1253 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1071 (1998) 3, 7

Dow Chemical Company v. Exxon Corporation, 139 F.3d 1470 (Fed. Cir. 1998), *reh'g denied*, 144 F.3d 1478, *cert. denied*, 143 L. Ed. 2d 37 (1999) 14, 15, 29

Cited Authorities

Page

Elkhart Brass Mfg. Co. v. Task Force Tips, Inc., 867 F. Supp. 782 (N.D. Ind. 1994) 5

Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025, 100 S. Ct. 888, 62 L. Ed. 2d 659 (1980) 19, 20, 21, 22, 23, 24, 27

Haynes Intern., Inc. v. Jessop Steel Co., 8 F.3d 1573 (Fed. Cir. 1993), *clarified*, 15 F.3d 1076 (1994) 19

In Re Wright, 999 F.2d 1557 (Fed. Cir. 1993) 4

Johns Hopkins University, et al. v. Cell Pro, Inc., 152 F.3d 1342 (Fed. Cir. 1998) 3

Kaehni v. Diffraction Company, 342 F. Supp. 523 (D. Md. 1972), *aff'd*, 473 F.2d 908 (4th Cir. 1973), *cert. denied*, 414 U.S. 854, 94 S. Ct. 151, 38 L. Ed. 2d 103 (1973) 16

Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861 (Fed. Cir. 1985) 19, 20, 21, 25, 27

Lucasey Mfg. Corp. v. Anchor Pad Int'l Inc., 698 F. Supp. 190 (N.D. Cal. 1988) 5

Machinery Corp. of America v. Gullfiber AB, 774 F.2d 467 (Fed. Cir. 1985) 25, 27

Cited Authorities

Page

Manildra Milling Corp. v. Ogilvie Mills, Inc., Appeal No. 92-1462, 1993 U.S. App. LEXIS 16230, 30 USPQ2d 1012 (Fed. Cir. 1993) *corrected, on reh'g. in part, reh'g. denied, in part*, 1993 U.S. App. LEXIS 29886 (Fed. Cir. Sept. 20, 1993) .. 29

Markman v. Westview Industries, Inc., 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370, 116 S. Ct. 1384, 134 L. Ed. 2d 577 (1996) 4, 28

Mercoid Corp. v. Mid-Continent Invest. Co, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1943) 17, 27

Mirafi, Inc. v. Murphy, 90-1074, 1991, U.S. App. LEXIS 1636, 18 USPQ2d 1087 (Fed. Cir. 1991) 29

Precision Instr. Mfg. Co. v. Automotive M. Mack Co., 324 U.S. 806, 65 S. Ct. 993, 89 L. Ed. 1381 (1944) 17

Professional Real Estate Investors v. Columbia Indus., Inc., 508 U.S. 49, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993) 17, 18, 25, 27, 30

Raytheon Co. v. Roper Corp., 724 F.2d 951 (Fed. Cir. 1983), *cert. denied*, 469 U.S. 835 (1984) .. 4

S. Bravo Systems, Inc. v. Containment Technologies Corp., 96 F.3d 1372 (Fed. Cir. 1996) 18

Cited Authorities

Page

Shelcore, Inc. v. Durham Industries, Inc., 745 F.2d 621 (Fed. Cir. 1984) 15

SSP Agricultural Equipment, Inc. v. Orchard-Rite, Ltd., 592 F.2d 1096 (9th Cir. 1979) 22, 23, 26

Standard Sanitary Mfg. Co. v. United States, 226 U.S. 20, 33 S. Ct. 9, 57 L. Ed. 107 (1912) 17

U.S. Aluminum Corp./Texas v. Alumax, Inc., 831 F.2d 878 (9th Cir. 1987), *cert. denied*, 448 U.S. 822 (1988) 23, 24, 25

View Engineering, Inc. v. Robotic Vision Systems, 115 F.3d 962 (Fed. Cir. 1997) 19

Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860 (Fed. Cir. 1997), *cert. denied*, 142 L. Ed. 2d 40 (1998) 21, 22

Virtue v. Creamery Package Mfg. Co., 227 U.S. 8 (1913) 26, 27

Walker Process Equip. v. Food Mach. Chem. Corp., 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965) 17, 22, 26

York Products, Inc. v. Custom Form Manufacturing, 99 F.3d 1568 (Fed. Cir. 1996) 2

Cited Authorities

Page

Statutes:

28 U.S.C. § 1254(1) 1

28 U.S.C. § 1295 1

35 U.S.C. § 101 ..... 4, 15

35 U.S.C. § 112 ..... 4, 14, 15

35 U.S.C. § 282 12

35 U.S.C. § 285 ..... 7, 8, 17, 18, 25

Rule:

Fed. R. Civ. P. 11 18

Other Authorities:

37 C.F.R. § 1.515 3

37 C.F.R. § 1.81 3

Black's Law Dictionary, Sixth Edition 21

Recovering Attorney Fees and Damages When Defending Against Bad Faith Patent Litigation, by Richard P. Beem, Esq. *Journal of the Patent and Trademark Office Society* (Feb. 1998; pp. 81-100) 13

Cited Authorities

Page

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TABLE OF APPENDICES

Page

Appendix A — Opinion And Judgment Of The United States Court Of Appeals For The Federal Circuit Dated And Decided July 12, 1999 ..... 1a

Appendix B — Memorandum And Order Of The United States District Court For The Middle District Of Pennsylvania Dated March 4, 1998 And Filed March 5, 1998 ..... 11a

Appendix C — Order Of The United States Court Of Appeals For The Federal Circuit Denying Petition For Rehearing Dated And Filed August 4, 1999 ..... 35a

Appendix D — Fasteners 36a

Undersigned counsel, on behalf of York Products, Inc. ("York") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case. McClarin Plastics, Inc. by undersigned counsel joins in York's petition.

OPINIONS BELOW

The summary judgment opinion of the district court (App. B, *infra*, 11a) is unpublished. The opinion of the Court of Appeals for the Federal Circuit on the merits (App. A, *infra*, 1a) and on York's Petition for Rehearing (App. C, *infra*, 35a) are unpublished.

STATEMENT OF JURISDICTION

Petitioner York seeks review of the judgment of the Court of Appeals for the Federal Circuit entered July 12, 1999, and the denial of York's timely Petition for Rehearing entered August 5, 1999. The Court of Appeals for the Federal Circuit had jurisdiction pursuant to 28 U.S.C. § 1295, which gives that court exclusive jurisdiction over appeals in patent cases. This Court has jurisdiction to review the judgment and denial of Petition by the Court of Appeals for the Federal Circuit pursuant to 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

A. The Proceedings and Facts

This is a patent case that never went to trial. The case involves underlying legal issues of national concern significantly affecting substantive rights of all persons accused of infringing patent claims and the importance of the issues goes far beyond the immediate interest of the parties.

LRV Acquisition Corporation ("LRV"), an Ohio corporation, is the owner of a United States patent[1] for a mechanical fastener intended to secure over the rail type

1. No. 5,046,775 (the '775 patent) issued September 10, 1991 to LRV as assignee of inventors Howard W. Marcum, Jr., John R. Snyder and Robert E. Stebens.

thermoplastic bedliners in the cargo body of pickup trucks. Without fasteners to hold over the rail type bedliners in place air currents caused by the vehicle's motion can cause bedliners to literally fly away creating a hazardous situation.

York, a Pennsylvania corporation, sells bedliners in competition with LRV. York's bedliners include patented features.[2] McClarin Plastics, Inc. manufactures the bedliners which York sells. In 1991, York decided to apply for a patent on a new fastener of its own invention for use with its patented bedliner. While preparing York's application for a patent, York's outside patent counsel discovered LRV's patent which was issued September 10, 1991. After reviewing LRV's patent, he concluded York's newly invented fastener did not infringe on LRV's patent claims and, moreover, that LRV's patent was invalid. He so advised York in a detailed written analysis. On that basis, York filed its patent application on November 18, 1991 and in its application York disclosed LRV's '775 patent for consideration by the United States Patent and Trademark Office ("PTO").

LRV learned of York's new fastener at a trade show and called York's attention to LRV's patent. Before York introduced its new fastener, LRV advertised to the industry that it offered a fastener that could be installed without the need to drill holes in the cargo body of the pickup truck. York disclosed complete details of its new fastener to LRV's patent attorney and provided him with a sample fastener. York's fastener also did not require drilling holes for installation. Soon, York perceived LRV's communications to it as a threat and retained trial counsel. To fulfill a duty created by decisions of the CAFC,[3] York's trial counsel

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2. An understanding of bedliners can be gleaned from *York Products, Inc. v. Custom Form Manufacturing*, 99 F.3d 1568 (Fed. Cir. 1996).

3. *See Amsted Industries v. Buckeye Steel Castings*, 24 F.3d 178 (Fed. Cir. 1994), explaining the affirmative duties of one on

(Cont'd)

obtained a detailed written analysis from a second experienced patent attorney to further review the issue of possible infringement in light of the communications from LRV, including a claim chart. The second patent attorney independently concluded there was not infringement and that LRV's patent was invalid.

To assure LRV that York had no interest in copying LRV's fastener, trial counsel submitted the two analyses to LRV to support York's position that there was no infringement and also, that LRV's patent was invalid. Without further communication, LRV filed suit against York in Ohio for direct, willful infringement of all thirty-five claims of LRV's patent and for inducing others to infringe as well. LRV issued a news release to publicize the suit to the industry and in the community where York's place of business was located in Pennsylvania and brought the suit to the attention of York's customers.

After the PTO examined York's application for a patent, the PTO deemed York's claims of invention patentable over the prior art, including LRV's '775 patent, and on September 29, 1992, granted York a patent for use with a bedliner.[4]

In LRV's suit, York counterclaimed under state law for unfair competition, trade disparagement, and tortious interference with existing and prospective business

(Cont'd)
notice of another's patent. *Also see Johns Hopkins University, et al. v. Cell Pro, Inc.*, 152 F.3d 1342 at 1363-4 (Fed. Cir. 1998); *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1071 (1998).

4. After York's patent was issued, LRV petitioned the PTO for its re-examination and cancellation of York's patent claims under 37 C.F.R. §§ 1.81 and 1.515. LRV contended York's claims were anticipated or rendered obvious in light of LRV's prior patent. After reviewing LRV's petition and re-examining York's patent, York's claims were confirmed without amendment. Later, on September 13, 1994, the PTO granted York patent 5,345,658 on the fastener per se.

relationships. York asserted there was not infringement and LRV's patent invalid or, in plain words, there was no basis for LRV's suit.

LRV later joined McClarin Plastics, Inc., for inducing infringement by supplying York with bedliners, and LRV's suit, commenced in Ohio, was transferred to Pennsylvania where McClarin had filed a declaratory judgment action against LRV seeking relief from LRV's infringement accusations. The two actions were consolidated and restyled with McClarin and York as plaintiffs.

All parties demanded trial by jury.

York contended, based on LRV's claims of invention, patent specification and file history, that York's fastener did not infringe any of LRV's patent claims and in addition the patent claims were invalid for failure to comply with 35 U.S.C. § 112[5] and for that reason § 101 as well.

On a motion for summary judgment, the district court in Pennsylvania held on February 25, 1998, that LRV's patent was not infringed. The district court denied summary judgment that the claims in issue were invalid because LRV disputed alleged facts and submitted an expert opinion that one skilled in the art would know how to make the fastener work without the benefit of the missing disclosure in the claims and specification.[6]

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5. When a patent fails to comply with § 112, it is said that it lacks enablement, a legal issue based on underlying factual inquiries. A patent that lacks enablement also lacks utility invoking the requirements of § 101. *See In Re Wright*, 999 F.2d 1557 (Fed. Cir. 1993); and *Raytheon Co. v. Roper Corp.*, 724 F.2d 951 (Fed. Cir. 1983), *cert. denied*, 469 U.S. 835 (1984). Reference to § 112 is included in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 116 S. Ct. 1384, 134 L. Ed. 2d 577 (1996).

6. Quoting from LRV's Brief in Opposition filed with the District Court at page 4:

(Cont'd)

However, the district court went on to grant LRV's motion for summary judgment in favor of LRV and against York on York's counterclaim for unfair competition based on patent invalidity and non-infringement (App. B, *infra*, 11a). The court credited LRV with a presumption that its suit was filed in good faith, citing two district court decisions for that principle (App. B, *infra*, 26a): "Because a patent is presumed to be valid, 35 U.S.C. § 282, a patentee 'has the presumption of good faith as to his infringement filing. . . .' *Elkhart*, 867 F. Supp. at 788; *accord Lucasey Mfg. Corp. v. Anchor Pad Int'l Inc.*, 698 F. Supp. 190, 193 (N.D. Cal. 1988)."[7]

The court concluded:

> . . . "There is *no* evidence in this case that LRV *knew* its infringement action was meritless"

(App. B, *infra*, 30a).

Contrary to York's assertion, a jury in this case would not be called upon to decide whether its

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> . . . In addition, LRV has submitted . . . a declaration of James A. Kirk, Ph.D., . . . [whose] conclusions, in critical instances, completely dispute York/McClarin's supposedly "indisputable" facts which, without more, establish conclusively that material issues of disputed fact exist in this case which require that York/McClarin's June Motion be denied. The expert declared "[o]ne skilled in the art of the invention to which the patent pertains would know how to make and use the invention based on a review of the disclosure of the '775 patent . . . ."

7. *Elkhart Brass Mfg. Co. v. Task Force Tips, Inc.*, 867 F. Supp. 782 (N.D. Ind. 1994) ("The plaintiff has the presumption of good faith as to his infringement filing, and the defendant has not presented evidence to overcome this presumption.").

Lucasey, at 193, "Good faith is presumed from proof that the patentee owned the patent and believed it valid at the time of the communications." *Id.*, (*Chromium Industries*, 448 F. Supp. at 559; *Celotex Co. v. Insulite Co.*, 39 F.2d at 217-18).

> witnesses or LRV's witnesses are more credible in explaining the foundation or absence of a foundation for the lawsuit. Instead, the jury would be required to determine whether York has shown that LRV did not have an honest belief in the existence of the rights it asserted. Stated otherwise, York must show that LRV could not have believed in the correctness of its position

(App. B, *infra*, 30a).

> In the absence of evidence that a patentee knew its infringement action was meritless, a claim for unfair competition is not sustainable.

(App. B, *infra*, 30a).

York appealed. The court saw no duty on the part of LRV not to bring a suit which a reasonable inquiry would have shown to be baseless. Instead, the court favored LRV with a presumption of good faith in filing suit. York contended that any issue of LRV's state of mind under state law was for the jury and not the court to decide and York's case under state law required proof by only a fair preponderance of the evidence with no presumption in favor of the patent holder. York contended LRV knew of or should have known the patent was not infringed as well as invalid. York supported its opposition to summary judgment with both expert, documentary and physical evidence. Not one, but six limitations of LRV's claims are not to be found in York's fastener. That LRV's patent claims and specification contain no written disclosure of a critical space relationship is indisputable from the patent and file history. The court gave no weight to York's evidence regarding it as what one might "anticipate" (App. B, *infra*, 27a) even though it had already held that there was not infringement on one of the very grounds about which both York and McClarin complained from the outset.[8]

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8. The court excluded from consideration York's evidence from LRV's original patent attorney, Stebens, and a co-inventor that there (Cont'd)

York's contention that LRV was duty-bound to make an appropriate investigation and obtain a competent opinion that there was infringement and its patent valid before filing suit was the reverse side of numerous CAFC decisions placing a duty on one on notice of a patent to avoid infringement. Such decisions hold that once on notice of another person's patent, one must use due care to avoid infringement or be liable to pay treble damages and attorneys' fees to the patent holder. Due care generally requires obtaining *competent* advice. But, the CAFC does not recognize all attorney opinions as competent. *See Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1071 (1998) ("The four opinions are . . . superficial and conclusory in nature. There is no analysis of specific claims, no interpretation of claim language, no discussion of the means-plus-function claim limitations and no meaningful discussion of the prosecution history.") York contended the very same principles should apply to the patent holder and if so, the conclusion inescapable that in the instant case such duty was breached as a matter of law or at least the issue was for the jury to resolve.

Finally, the court, exercising its discretion, denied that the case was exceptional and declined to award York and McClarin expenses under 35 U.S.C. § 285[9] sustained during their six-year struggle to obtain exoneration from LRV's charge of infringement.

(Cont'd)
was not infringement and the patent claims invalid. *See* footnote 19 (App. B, *infra*, 27a).

9. 35 U.S.C. § 285 provides as follows:

> The court in exceptional cases may award reasonable attorney fees to the prevailing party. *See Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467 (Fed. Cir. 1985).

On appeal and cross-appeal, the appeals court affirmed the summary judgment that there was not infringement (App. A, *infra*, 5a, 6a), held that it did not have jurisdiction to review the validity/invalidity issue (App. A, *infra*, 7a), affirmed the judgment dismissing York's claim for unfair competition (App. A, *infra*, 8a). ("As the district court noted, York has presented no evidence material to that element [damages] of its unfair competition claim.") and denial of an award under 35 U.S.C. § 285 (App. A, *infra*, 8a). ("The district court did not commit clear error that this is not an exceptional case.").

The appeals court denied a petition for rehearing that explained why the court did, indeed, have jurisdiction to decide the invalidity issue and why the district court committed plain error in refusing to submit the unfair competition issue to a jury citing a number of critical statements by the district court in its decision that were plainly incorrect and, more likely than not, misled the district court to an erroneous conclusion. A critical statement by the district court is clearly in error and is a very serious mistake in the court's analysis: (". . . It was only because the claims in issue were construed to require a limitation not explicitly set forth in the claims that the accused device was determined to be non-infringing . . . .," (App. B, *infra*, 28a)), and in its conclusion: "The fact that limitations had to be read into the '775 Patent claims also confirms LRV's good faith belief in its infringement action." (App. B, *infra*, 32a). However, the limitation to which the court referred to negate LRV's bad faith in filing suit is in fact an *expressed limitation* in the claims (". . . thereby providing downward and horizontal locking forces" Claim 1, Col. 15, l. 24, *see also* Claim 31, Col. 18, l. 33 and Claim 35, Col. 20, l. 3) as the court of appeals immediately recognized and explained (*See* 3a-6a).

> ". . . they serve to specify critical properties of the clamping surfaces of the fasteners that fall within the scope of the claims. As the applicant

> unmistakably indicated during the prosecution of the '775 patent, only fasteners having clamping surfaces that effect downward locking forces are within the scope of claims 1 and 31."

(App. A, *infra*, 5a).

The limitation was not *read* into the claims as stated by the district court. The limitation was added by LRV to obtain the patent. Obviously the limitation was of critical importance and known to LRV as well as its complete absence from York's fastener before LRV filed suit. The absence established there was not infringement.

B. Briefly About Infringement and Invalidity

The photographs (App. D, *infra*, 36a, 37a) show LRV's best mode commercial bedliner fastener illustrated in Fig. 2 of LRV's patent — and in place with a bedliner as also illustrated in Fig. 2. The fastener base is about three quarters of an inch wide and the locking tongue one quarter inch wide by one and three quarter inches high and one inch deep. LRV's patent includes three independent claims: 1, 31 and 35. Claim 35 includes a cargo body with a flange having a lip while claims 1 and 31 do not require a lip. Pickup truck cargo body rail flanges are vertical. If a lip is present, the lip may be horizontal at a right angle to the vertical flange or at a lesser or greater angle to the vertical part. The photo 37a discloses a lip at a right angle, as shown in Fig. 2 of the patent and without a lip (App. D, *infra*, 38a).

Photos 39a and 40a show the York fastener in comparable positions. York's fastener is not a copy or similar to any of LRV's claimed inventions although both are fasteners to serve the same purpose.

According to LRV's patent specification and claims, the V-shaped clamping surface of LRV's locking tongue (the inventors' term) creates both horizontal and downward locking forces after the fastener is inserted through an aperture made in the bedliner sidewall and the V-shaped

clamping surface is rotated against the lip or vertical flange of the separate cargo body. The specification states that the upper end of the bedliner aperture is to be located slightly below the bottom of the pickup truck cargo body flange and similar language appears as a limitation in claims 31 and 35.[10] Claim 1 does not include an aperture or refer to a location for an aperture. York's fastener does not have a V-shaped clamping surface or tongue and the end of York's elongated generally C-shaped flexible member does not engage the cargo body flange end or lip under any circumstance but completely bypasses those points. York's projection is made to dimensions to develop only a horizontal pinch-like force against the side of the flange so that the bedliner is not locked in place but can move relative to the cargo bed both vertically and horizontally to accommodate thermal expansion of the thermoplastic material.

The commercial fasteners of both LRV and York are made of plastic and cost about ten cents a piece or less to make. Use of such fasteners results in significant labor savings in the installations of bedliners. Other bedliner suppliers use different designs with some more expensive fasteners costing as much as one dollar per fastener.

Both the district court in granting summary judgment that there was not infringement and the court of appeals in affirming, made an independent review of LRV's patent, file history and other evidence and arrived at the same conclusion as the two patent attorneys who advised York that there was not infringement.

The court of appeals noted in particular that LRV obtained allowance of the claims of invention by making a specific representation to the PTO that what distinguished

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10. "Said elongated aperture extending a distance downwardly from the bottom edge of the cargo bed flange." Col. 17, l. 66-68, Claim 31. For claim 35, "[the] upper end of the aperture will be located slightly below said bottom edge of said flange in use." Col. 18, l. 60, 61.

LRV's fastener from prior art was the ability of the fastener to create a downward locking force to secure the bedliner in place (App. A, *infra*, 4a). The court of appeals noted that LRV rewrote the claims to overcome a rejection and obtain the patent (App. A, *infra*, 4a). Because the structure of York's fastener does not create downward and horizontal locking forces and differs in structure and function, it does not infringe.

With regard to the issue of invalidity which the CAFC did not address, for the LRV fastener to achieve the required two locking forces, the spaced relationship between the *bottom* of the bedliner aperture (rather than the location of the upper end of the aperture as stated in the specification and Claims 31 and 35) and the end of the pickup truck cargo body flange or lip is critical to achieve horizontal and vertical locking forces between the bedliner and cargo body. Further, that there is no explanation set forth in the patent specification and claims is apparent from reading the patent and file history. Moreover, if the alleged invention is practiced in accordance with the specification and claims with the upper end of the aperture located slightly below the bottom edge of the flange,[11] the fastener of Claims 1 and 31 is inoperative when *no* lip is present.[12]

* * *

The pre-suit charges for the two professional analyses for York cost no more than $10,000, but it took six years in two district courts, nearly another year in the court of appeals and hundreds of thousands of dollars in out-of-pocket costs and expenses to defend against LRV's charge of infringement that could not survive a motion for summary judgment.

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11. Claim 1 does not include an aperture and is also invalid for that reason.

12. On at least two occasions, one in court and another recorded on video at the deposition of LRV's inventor and original patent attorney, LRV's fastener failed to create any forces and fell out of the aperture and onto the floor.

York has licensed its bedliner patent to others but because of LRV's claim of infringement and the litigation, York has been prevented from licensing its fastener patent.

The law of Pennsylvania provides a common law remedy for LRV's misconduct which York asserted as a counterclaim for unfair competition.

REASONS FOR GRANTING THE WRIT

There are very important reasons why a writ should be granted. The issues are critical to all persons who have been or may be accused of patent infringement. Since its creation, the CAFC has had exclusive jurisdiction to review district court judgments rendered in patent cases and as a consequence little or no opportunity exists for other circuits to consider the issues and express their beliefs. Rights granted under state law are involved yet there is little or no opportunity for review of such rights in a state court and decisions of the CAFC are in direct conflict with state law, a decision of the Ninth Circuit Court of Appeals and even a prior CAFC decision as hereinafter noted. There is confusion with regard to the application of the presumption of patent validity granted under 35 U.S.C. § 282 to claims of infringement, and more particularly, whether a federal presumption of "good faith" applies in favor of the patent holder in defense of state law claims.

The court of appeals' denial of jurisdiction to decide the invalidity issue or failure to return the issue to the district court for trial is difficult to understand in light of this Court's discussion in *Cardinal Chemical Company v. Morton International, Inc.*, 508 U.S. 83, 113 S. Ct. 1967, 124 L. Ed. 2d 1 (1993), noting the desirability of removing invalid patents from the patent rolls. Except to litigate the validity of LRV's patent, there is no other way to resolve the issue and LRV put the issue into play.

There is a long overdue need for a uniform, clearly defined standard of care on the part of a patent holder before

claiming infringement or filing suit. Is the patent holder entitled to a presumption that suits for infringement by the patent holder are filed in good faith? Favoring the patent holder with a presumption of good faith finds no precedent in this court and is contraindicated. There is a definite conflict between the rights of the patent holder under federal law to enforce the patent grant and the rights of the accused under state common law to be free from baseless suits. The harm that can be caused to an innocent party can be devastating. While state law is intended to provide recourse, in actual practice, since creation of the CAFC, state law rights have been rendered practically non-existent because of a presumption of good faith granted to patent holders and the additional burden of proof placed on the accused. There has been no indication from the CAFC that it will change or even modify its position that patent holders have superior rights to accused infringers. Decisions of the CAFC have had the practical effect of granting immunity to patent holders from claims for damages to innocent victims by baseless accusations of infringement or where a patent is or should be known to be invalid. The CAFC has so handicapped the accused infringer that a recovery for misconduct has been denied except in the rarest of cases.

Decisions of the CAFC concerning the harm caused by patent holders and the effort of innocent parties to obtain relief have attracted national attention and is the subject of an article, *Recovering Attorney Fees and Damages When Defending Against Bad Faith Patent Litigation*, by Richard P. Beem, Esq. published in the February 1998 issue of the *Journal of the Patent and Trademark Office Society* (JPTOS) (pages 81 to 100) which bears reading. Mr. Beem's article begins with the statement, "An alleged infringer can vindicate herself by proving a patent invalid or not infringed, but at what cost? One or two million dollars in legal expenses, not to mention lost customers, lost profits, and lost executive time spent on litigation at the expense of the business."

(footnotes omitted). It also should be noted that not all accused infringers have the means to defend false charges of infringement and may be forced to submit to the demands of the patent holder even though the patent is invalid or not infringed. It is very important to clarify their rights.

While the pre-suit standard of care on the part of a patent holder has been and is a national issue of importance, for the better part of twenty years the CAFC has avoided placing any specific duty on a patent holder other than to state he must not act in "bad faith". At the same time, it has created a barrier to protect patent holders from damage claims and burdened the accused infringer to the extent a completely innocent party is deprived of substantial rights created under state law. There is not a level playing field but there should be. The present situation cries out for review and correction which only can come from this Court.

THE FIRST REASON

The importance that invalid patents be identified and removed from the patent rolls is well known and discussed in the *Cardinal* case, *supra*. Reexamination provides one means of canceling invalid patents but where the invalidity issue arises under § 112, reexamination is unavailable. Thus, the only means available for removing LRV's patent is through the litigation process. In the instant case, York submits that surely the court of appeals has jurisdiction to review the invalidity issue or that it should remand the issue for trial. Because LRV opposed York's summary judgment motion by raising an issue of disputed facts, if that is sustained, then such disputed facts would be for the jury to resolve. The *Cardinal* case, *supra*, indicates the court of appeals does indeed have jurisdiction to decide whether or not a patent is invalid even if there is not infringement because of the public interest to be served. The issue of invalidity was raised independently in York's counterclaim. That it was and is proper to do so should be free from doubt. *See Dow Chemical Company v. Exxon Corporation*, 139 F.3d

1470 (Fed. Cir. 1998), *reh'g denied*, 144 F.3d 1478, *cert. denied*, 143 L. Ed. 2d 37 (1999); *Shelcore, Inc. v. Durham Industries, Inc.*, 745 F.2d 621 at 624 (Fed. Cir. 1984). York alleged LRV's patent was invalid for failure to comply with 35 U.S.C. § 112 and § 101. When York appealed from the district court's judgment against it on York's counterclaim, York believed the appeal carried the issue of invalidity to the court of appeals. The issue of appellate jurisdiction to review the issue was neither briefed nor argued by either party; rather, the court of appeals raised the issue *sua sponte*, based on certain proceedings in the district court which it appears the court of appeals misinterpreted.

It is believed that the court of appeals' statement that it has no jurisdiction likely resulted from a misunderstanding of the lower court proceedings as York explained in its Petition for Rehearing. York agrees with the court of appeals that the issue of invalidity as a defense to LRV's claim of infringement was mooted when summary judgment was granted in favor of York and McClarin without the need to reach that issue. That decision put McClarin out of the case. But surely the invalidity issue was not mooted as an essential element of York's counterclaim for unfair competition based on independent jurisdiction. *See Shelcore, Inc.* ("Shelcore could not unilaterally remove the validity issue because Durham's counterclaim put validity of all the claims in issue") ("*Altvater v. Freeman*, 319 U.S. 359, 636, 63 S. Ct. 115, 117, 87 L. Ed. 1450, 57 U.S.P.Q. 285, 288"). The court of appeals simply denied rehearing without comment (App. C, *infra*, 35a).

As matters stand, York's effort to prove the patent invalid as a matter of law was thwarted at the district level by LRV's assertion of a factual dispute and the summary dismissal of York's counterclaim. In that connection, the district court when dismissing York's counterclaim said only,

> The fact that York has been denied summary judgment on the patent validity issue confirms LRV's good faith belief in its patent rights.

(App. B, *infra*, 32a).

While York believes LRV's patent is invalid as a matter of law, surely York was and is entitled to have the issue of invalidity submitted to a jury if it can truly be said that a genuine dispute exists with regard to a material fact.

THE SECOND REASON

A. Prior to Creation of the CAFC a Duty Existed

Prior to the first pertinent decision of the CAFC, it was believed that a positive duty existed on the part of the patentee to establish good grounds to do so before asserting infringement or filing suit. In *Coal Processing Equipment, Inc. v. Campbell*, 578 F. Supp. 445 (S.D. Ohio 1981), the court at 465 stated:

> . . . accusations of infringement must be made with extreme accuracy and caution, and, to the maximum extent possible, in such a manner that they may be substantiated and verified. *Callmann, supra* . . . (2R. *Callmann, The Law of Unfair Competition, Trademarks, and Monopolies*, § 42.4 at 254-255 (3rd ed. 1968).

Callmann cites a number of decisions in the context of unfair competition cases concerning warnings given by a patentee to possible infringers that were either justified or unjustified and with regard to the latter, that unjustified accusations could give rise to a claim for unfair competition. The terms bad faith and good faith were used to describe the patentee's conduct in making accusations of infringement. But no presumption of good faith in filing suit existed with regard to asserting an infringement claim. *See Kaehni v. Diffraction Company*, 342 F. Supp. 523 at 536 (D. Md. 1972), *aff'd*, 473 F.2d 908 (4th Cir. 1973), *cert. denied*, 414 U.S. 854, 94 S. Ct. 151, 38 L. Ed. 2d 103 (1973) (awarding attorneys' fees

under § 285). ("No . . . presumption attaches to an allegation of infringement . . ." (p. 536)).

B. It Is Clear That Patent Rights Can Be Abused

The possibility that patent rights can be abused has been recognized for many, many years. *See Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 33 S. Ct. 9, 57 L. Ed. 107 (1912); *Mercoid Corp. v. Mid-Continent Invest. Co*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1943); *Precision Instr. Mfg. Co. v. Automotive M. Mack Co.*, 324 U.S. 806, 65 S. Ct. 993, 89 L. Ed. 1381 (1944) and *Walker Process Equip. v. Food Mach. Chem. Corp.*, 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965).

In the *Mercoid* case, 320 U.S. at 665, this court stated:

> The grant of a patent is the grant of a special privilege "to promote the Progress of Science and useful Arts." Const. Art. I, § 8. It carries, of course, a right to be free from competition in the practice of the invention. *But the limits of the patent are narrowly and strictly confined to the precise terms of the grant.* (citations omitted). It is the public interest which is dominant in the patent system. (citations omitted). It is the protection of the public in a system of free enterprise which alike nullifies a patent when any part of it is invalid. (citations omitted) . . . (Emphasis supplied).

Unfortunately not all patent holders have heeded this court's admonition that there are metes and bounds to their grant.

The court's analysis concerning the meaning of sham litigation in *Professional Real Estate Investors v. Columbia Indus., Inc.*, ("PRE") 508 U.S. 49, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993), is believed pertinent and instructive. The case involved an antitrust counterclaim alleging certain copyright infringement suits were "sham." The court concluded that a two part test should be followed to determine if litigation is sham rather than a subjective test:

> First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits" and, if that test is satisfied,
>
> [Second] . . . the court should focus on whether the baseless lawsuit conceals 'an attempt to interfere *directly* with the business relationships of a competitor. . . .

(123 L.Ed.2d at 624).

The first part of the analysis clearly establishes an objective test and at the same time an affirmative duty. In a state court action breach of the duty would be for the jury. To fulfill that duty would require a patent holder to make or hire experts to make an appropriate investigation of the device or method in question, an honest, unbiased, competent evaluation of the patent claims and a fair application of the claims to the device or method in question. If adopted in patent infringement cases, the "success on the merits" duty should afford a reasonable degree of protection from unjustified charges and suits. Moreover, it is fair to both sides and protects each from the other. York submits the test establishes a reasonable and objective test but such test is presently lacking in patent law and York submits that it should be adopted as a principle.

C. CAFC Decisions Have Negated State Rights

Since 1982, published decisions of the CAFC with regard to claims for unfair competition against a patent holder do not mention the existence of any specific duty on the part of the patent holder before accusing others of infringement or filing suit. On a number of occasions alleged misconduct has been reviewed in the context of sanctions under Rule 11 or for an award of attorney fees and expenses under § 285. *See S. Bravo Systems, Inc. v. Containment Technologies Corp.*, 96 F.3d 1372 (Fed. Cir. 1996), where it was inadequate for the patent holder's attorneys to rely on the patentee's lay

opinion of infringement and the case was returned to the trial court for further consideration. *Also see View Engineering, Inc. v. Robotic Vision Systems*, 115 F.3d 962 (Fed. Cir. 1997) (sanctions against a law firm); *Haynes Intern., Inc. v. Jessop Steel Co.*, 8 F.3d 1573 (Fed. Cir. 1993), *clarified*, 15 F.3d 1076 (1994) ("A frivolous infringement suit is one which the patentee knew or, on reasonable investigation, should have known, was baseless."). However, using the words bad faith, baseless, reckless or frivolous fails to provide an objective standard applicable in all cases by which to assess the patentee's conduct. Moreover, CAFC decisions have had the practical effect of directing trial courts to engage in subjective fact finding in their search for bad faith or good faith, focusing mainly on the patentee's state of mind — a matter that at best is elusive of proof, largely subjective, inappropriate and uncalled for because evaluating matters of science, engineering and technology are subject to objective analysis. However, if the issue of mental state must be decided, it should be for the jury and not the court to resolve under applicable state law standards with appropriate instructions.

In *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861 (Fed. Cir. 1985), it appears the CAFC first faced the issue of alleged patentee misconduct giving rise to a claim for damages against the patent holder. The issue arose in the context of an antitrust counterclaim dismissed by the district court. The district court dismissed the antitrust counterclaim because *Loctite* did not bring its suit for patent infringement in "bad faith." The district court adopted the reasoning of *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025, 100 S. Ct. 888, 62 L. Ed. 2d 659 (1980), for lack of a Seventh Circuit decision. Because the counterclaim involved an antitrust theory and could result in treble damages, the district court required *Ultraseal* to prove by "clear and convincing" evidence that the infringement suit was brought in "bad faith." *Ultraseal*

contested that standard urging the CAFC to follow the preponderance of the evidence standard but it declined to do so stating at 781 F.2d at page 876, "We decline to do so, and more importantly, we believe the court of appeals for the Seventh Circuit would decline to do so."

Quoting from *Handgards*, the CAFC adopted the following rationale:

> Patentees must be permitted to test the validity of their patents in court through actions against alleged infringers. . . . On the other hand, infringement actions initiated and conducted in bad faith contribute nothing to the furtherance of the policies of either the patent law or the antitrust law. 601 F.2d at 993, 202 U.S.P.Q. at 348.

The court of appeals agreed with the reasoning of *Handgards* that there must be a barrier to prevent the frustration of patent laws from antitrust suits and protect the "honest patentee" who brings suit to protect his patent. After explaining that the barrier was to protect against antitrust suits the CAFC stated:

> "The barrier identified by *Handgards* is that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence." *Id.* *Handgards* specifically rejected a "preponderance standard" because that would eliminate a barrier we hold necessary and were it accepted as proper, "might well chill" legitimate patent enforcement efforts "because of fear of the vexatious or punitive consequences of treble damage suits."

Id. at 876.

Note the statement that, "a patentee's infringement suit is presumptively in good faith and that the presumption can be rebutted only by clear and convincing evidence." This is the key to understanding how state law has been eviscerated.

All of *Ultraseal*'s arguments were rejected but the good faith or bad faith of the patent holder is both vague and largely subjective and an unsatisfactory principle to apply because there is no specific duty on the part of the patent holder by which to judge good faith or bad faith against. Like the problem of defining "sham" litigation, one need only consider the definition of bad faith to recognize that it is unsatisfactory. Bad faith is defined in *Black's Law Dictionary, Sixth Edition* as follows:

> Bad faith. The opposite of "good faith," generally implying or involving actual or constructive fraud, or a design to mislead or deceive another, or a neglect or refusal to fulfill some duty or some contractual obligation, not prompted by an honest mistake as to one's rights or duties, but by some interested or sinister motive. Term "bad faith" is not simply bad judgment or negligence, but rather it implies the conscious doing of a wrong because of dishonest purpose or normal obliquity; it is different from the negative idea of negligence in that it contemplates a state of mind affirmatively operating with a furtive design or ill will. *Stath v. Williams*, Ind. App. 367 N.E.2d 1120, 1124. An intentional tort which results from breach of duty imposed as consequence of relationship established by contract. *Davis v. Allstate Ins. Co.*, 101 Wis.2d 1, 303 N.W.2d 596, 599.

Few if any persons will admit to bad faith in filing suits yet experience demonstrates many suits fail because there are no facts to justify alleging infringement at the onset or the evidence is such that it is clear the patent is invalid.

D. The Ninth Circuit Has Limited Handgards to Antitrust Claims to Preserve and Protect State Rights

The holding in the *Handgards* case adopted by the CAFC (and still followed; *see Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997), *cert. denied*, 142

L. Ed. 2d 40 (1998)) involved an antitrust suit based on alleged bad faith prosecution of prior patent infringement suits in which the patent was adjudged invalid. A jury decided the antitrust claim against the patentee and awarded damages. On appeal the case was reversed by the Ninth Circuit and remanded for a new trial.

In *Handgards*, the court was called upon to consider instructions given to the jury that Ethicon, the patent holder, could be found guilty of an antitrust violation upon proof by a preponderance of the evidence. Recognizing what the court termed a complex interaction between two conflicting bodies of *federal* law, the court decided to create a barrier, "to antitrust suits . . . [by providing] reasonable protection for the honest patentee who brings an infringement action to protect his legal monopoly." 601 F.2d at 996. Having reached that conclusion, the court went on to hold:

> [5] A proper barrier is, in our opinion, suggested by *Walker Process*. It is that the jury should be instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence. See *Cataphote Corp.*, *supra*, 450 F.2d at 772; *SSP Agricultural Equipment*, *supra*. Such an instruction accords the patentee a presumption commensurate with the statutory presumption of patent validity set forth in the patent laws, 35 U.S.C. § 282, which can only be rebutted by a showing of clear and convincing evidence (citations omitted).

But neither *Walker*; *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769 (9th Cir. 1971), nor *SSP Agricultural Equipment, Inc. v. Orchard-Rite, Ltd.*, 592 F.2d 1096 (9th Cir. 1979), hold or even hint that the patent holder should be favored with a presumption of good faith in filing an infringement suit and proof to the contrary required by clear and convincing evidence. In *Walker*, the

issue was whether or not fraud in obtaining a patent could give rise to an antitrust claim. There is no reference to the existence of a presumption that patent suits are filed in good faith and in fact, the court cites numerous cases concerning fraudulent procurement of patents — hardly suggestive that patentees are honest or act in good faith. *Cataphote* involved a Walker type claim for fraud and makes no reference to a good faith presumption. *SSP* is the same; the existence of or operation of a good faith presumption is not mentioned.

Whatever can be said for or against the reasoning in *Handgards*, nine years later the very same court in *U.S. Aluminum Corp./Texas v. Alumax, Inc.*, 831 F.2d 878 (9th Cir. 1987), *cert. denied*, 448 U.S. 822 (1988), limited the application of its holding in *Handgards* to antitrust claims and held the rule of *Handgards* inapplicable to state law claims against a patent holder. U.S. Aluminum sued Alumax for malicious prosecution following a previous unsuccessful patent infringement action brought by Alumax. The court of appeals explained:

> In the first lawsuit, Aluminum successfully defended a patent infringement action brought by Alumax's subsidiary Howmet Aluminum Corp. The district court awarded attorneys fees to Aluminum under section 285 of the federal patent law. 35 U.S.C. § 285. On appeal the Federal Circuit rejected appellant's contention that Alumax prosecuted that action in bad faith and reversed on the attorneys fees issue.
>
> Aluminum then brought the present action, a suit for malicious prosecution, against Alumax . . . the district court granted [a motion for summary judgment] on the ground that Aluminum was collaterally estopped from litigating a necessary element of its claim. . . .

After rejecting that argument the court then turned to its prior holding in *Handgards*, *supra*, and distinguished and limited its application stating:

> . . . Despite the surface appeal or that argument, we reject it. First, we do not find here the same kind of interrelationship that exists between the patent law and the antitrust laws. Patents confer a legal monopoly; the ground they occupy is necessarily carved out of that otherwise occupied by the antitrust laws. In areas where each law potentially extends, to broaden the coverage of one law necessarily interferes with the policies behind the other. . . .
>
> While we do not deny that conflict is possible between state malicious prosecution laws and federal patent laws, the policies underlying each are not inherently antiethical. Patents do not create an exemption from state malicious prosecution laws. Indeed, the balance we reached in *Handgards* between the rights of suing patentees and their defendants presupposed the continued existence of state law remedies for bad faith suits: (quotation omitted).

Thus, the court declined to extend the rule in *Handgards* to state law claims and *Aluminum*'s burden of proof under state law was to establish its case by a preponderance of evidence rather than the clear and convincing standard held applicable in treble damage antitrust claims. Applicable here, it was legal error for the district court to favor LRV with a presumption of good faith in York's state law claim and require York to prove its case by clear and convincing evidence. York's evidence in opposition to LRV's motion for summary judgment, giving York the benefit of all reasonable inferences as the court was bound to do, clearly made out a case upon which York could recover. LRV had two competent analysis that there was no infringement and its patent invalid

but what did it do — it filed suit and it never came forth with a competent pre-suit analysis of its own to justify its action.

Ironically, shortly before deciding *Loctite*, *supra*, the CAFC in *Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467 (Fed. Cir. 1985), considered an award of attorneys' fees under § 285 and rejected the argument of the patentee/appellants that patented holders were to be favored over accused infringers because of the presumption of patent validity, the court stating at 472:

> . . . we note, however, that no similar presumption attaches to an allegation of infringement and the appellants cannot hide behind the cloak of a presumption in this case solely involving infringement. See *Kaehni v. Diffraction Co.*, 342 F. Supp. 523, 535, 173 USPQ 705, 714 (D. Md. 1972) *aff'd mem.*, 473 F.2d 908, 178 USPQ 321 (4th Cir.), *cert. denied*, 414 U.S. 854, 94 S. Ct. 151, 38 L.Ed.2d 103 (1973).

However, *Loctite* gives that very presumption to patent holders when filing suit for infringement — a cloak to hide behind!

E. Cases Since Loctite

Since *Loctite*, the CAFC has discussed the rights of a patent holder in a number of cases without referring to the holding in the *U.S. Aluminum* case, *supra*, its statement in *Machinery Corp.*, *supra*, or departing from the principles established in its *Loctite* decision. In *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 at 1369 (Fed. Cir. 1998), *reh'g denied*, 161 F.3d 1380, *cert. denied*, 143 L. Ed. 2d 1008 (1998), the court reversed a successful antitrust law counterclaim. The court cited *Professional Real Estate Investors, Inc. v. Columbia Indus. Inc.*, *supra* ("*PRE*"), reiterated the principles adopted in *Loctite*, but failed to recognize in *PRE* the duty imposed on the owner of the right that is implicit:

> Neither the bringing of an unsuccessful suit to enforce patent rights, nor the effort to enforce a patent that falls to invalidity, subjects the suit to antitrust liability. Cf. *Concrete Unltd. Inc. v. Cementcraft, Inc.*, 776 F.2d 1537, 1539, 227 USPQ 784, 785 (Fed. Cir. 1985) (no liability for unfair competition based on suit to enforce an invalid patent). Since a principal purpose of the patent system is to provide innovators with a property right upon which investment and other commercial commitments can be made, absent the *PRE* criteria, the patentee must have the right of enforcement of a duly granted patent, unencumbered by punitive consequences should the patent's validity or infringement not survive litigation. *See Id.* **The law recognizes a presumption that the assertion of a duly granted patent is made in good faith**. *See Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913); **this presumption is overcome only by affirmative evidence of bad faith**. *See PRE, supra*. (Emphasis supplied.)

The *Concrete* case identified above involved an appeal by the patent holder from an award against it for unfair competition. The court of appeals reversed without citation of authority or giving a reason except to state:

> Concrete Unlimited's actions in this case were not unfair competition, and we reverse the district court's holding to the contrary.

Just as neither *Walker*; *Cataphote* nor *SSP* authorized a good faith presumption for infringement filings, neither did *Virtue*, also cited above. That case involved a suit for violation of antitrust laws in connection with selling patented products. The decision, however, makes little reference to patent law and none whatsoever to a presumption of good faith at pages 37-38 as cited. Nor can a legal presumption be fairly

inferred from the court's opinion at those pages or elsewhere. This court, after a lengthy discussion of facts, simply concluded that the patent holders committed no wrong in filing suit.

York does not disagree with the conclusion in *Virtue*, but what if the charge of infringement is baseless under the *PRE* test and the conduct of the patent holder causes damage to an innocent party? Should the patent holder be given what amounts to a release from liability for his/her negligent disregard of the rights of others? The presumption favoring the patent holder created by the CAFC in *Loctite* is not supported by decisions of this court or the statement in *Machinery Corp.* and further, the presumption of patent validity relied upon in *Handgards* provides no real support as the CAFC recognized in the *Machinery Corp.* case, *supra.* The presumption of validity is based on the fact that an application for a patent is subject to examination by an administrative agency with experts in the subject matter before the patent is granted. There is no comparable examination of possible infringement by the PTO or any independent agency to justify a presumption of good faith or to increase the innocent victim's burden of proof. Finally, nine years later, the *Handgards* court excluded application of the presumption from claims arising under state law because it recognized that state law does not intrude on patent law. York submits the patent grant itself is a sufficient reward for inventors and they should not be granted the additional reward of a good faith presumption in alleging infringement and protected by an enhanced standard of proof imposed on innocent victims of their accusations.

F. A Clear Principle Is Needed That Only This Court Can Provide

In patent cases it is an all too common practice that after a patent is granted the patent holder will attempt to broaden the scope of the claims beyond what was granted by the PTO (or to regain what was given up). The statement in *Mercoid*,

". . . [that] the limits of the patent are narrowly and strictly confined to the precise terms of the grant" is ignored. Patent holders want broader coverage so that a competitor may be enjoined even though the competitor's product is clearly outside the scope of the patent claims and, as in this case, may be the subject of a patent. *Markman v. Westview Industries, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff'd*, 517 U.S. 370, 116 S. Ct. 1384, 134 L. Ed. 2d 577 (1996) reviewing whether or not interpretation of claim language is a legal issue or for the jury illustrates one means by which a patent holder may attempt to avoid the plain meaning of words. ("The district court exercised its discretion in finding unhelpful Markman's testimony that he meant 'inventory,' or that one of ordinary skill in the art would understand 'inventory,' to mean something to the contrary . . . ." 52 F.3d at 983.)

Here, even after *Markman*, LRV attempted to broaden its claims of invention by means of "expert testimony" offered under the guise of "one skilled in the art" akin to expert "junk science" testimony. York objected, contending no testimony was required to interpret the claims; the patent, though defective, is readily understood. The expert gave testimony to support the patent holder's theory of claim construction and infringement. LRV's expert opined that York's fastener created a downward force because the bedliner did not move upward after it was installed; there was no difference between V-shaped and C-shaped and it did not make any difference that York's fastener completely bypassed the end of the flange or lip! While both the district court and court of appeals undoubtedly recognized the testimony as preposterous, it should be noted that innocent victims of baseless charges must incur the cost and expense to defend against such evidence or for economic reasons, submit to an injunction or accept a license and pay royalties on a patent clearly not infringed and/or invalid. (LRV contended it sustained damages of ten dollars for each bedliner York sold.) When that happens, the public interest

in removing invalid patents from the patent rolls is clearly defeated, competition stifled and the patent grant abused as this court observed in the *Cardinal* case, *supra*.

The CAFC has recognized that state law remedies exist,[13] but by crafting a presumption and upping the standard of proof it has created a protective barrier that clearly favors patent holders. As pointed out by Mr. Beem in his article at page 87:

> [T]hree of the leading Federal Circuit cases on unfair competition laws as it relates to bad faith patent litigation are unpublished, unprecedential and under Federal Circuit rules, uncitable opinions.

In one of the unpublished decisions, *Mirafi, Inc. v. Murphy*, 90-1074, 1991, U.S. App. LEXIS 1636, 18 USPQ2d 1087 (Fed. Cir. 1991), reversing a district court's judgment finding of unfair competition, the court stated, "a patentee's need to enforce his patent in court overrides unfair competition interests." In another unpublished decision, *Manildra Milling Corp. v. Ogilvie Mills, Inc.*, Appeal No. 92-1462, 1993 U.S. App. LEXIS 16230, 30 USPQ2d 1012 (Fed. Cir. 1993) *corrected, on reh'g. in part, reh'g. denied, in part*, 1993 U.S. App. LEXIS 29886 (Fed. Cir. Sept. 20, 1993), reversed an award for $4,750,000. The court stated that it would "leave for another day" resolution of any tension between the patent laws and the law of unfair competition. But, when will that day come?

Whether or not a charge of infringement is justified should be judged objectively on its own particular facts unburdened by presumptions that favor the patentee and the test established in *PRE* adopted for patent cases. Patent infringement cases involve technical or scientific subject

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13. *See Dow Chemical Co. v. Exxon Corp.*, *supra* ("a state has every right to protect its citizens and residents [against] wrongful interference").

matter that can and should be analyzed on a purely objective basis and competent analysis should be required before infringement is alleged or suit filed. Suit should not be brought unless there is evidence that on the merits a reasonable person would conclude that more likely than not the suit will succeed — the first test in *PRE*.

Patent ownership should not itself give rise to a presumption that the patent holder is either honest or acting in good faith. History negates any basis for such presumption.

CONCLUSION

For all of the above reasons petitioner respectfully requests that a writ of certiorari be issued.

Respectfully submitted,

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APPENDIX

APPENDIX A — OPINION AND JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AND DECIDED JULY 12, 1999

United States Court of Appeals
for the Federal Circuit

98-1454, -1455

McCLARIN PLASTICS, INC. and
YORK PRODUCTS, INC.,

Plaintiffs-Appellants,

v.

LRV ACQUISITION CORPORATION,

Defendant-Cross Appellant.

DECIDED: July 12, 1999.

Before RICH,* *Circuit Judge*, SKELTON, *Senior Circuit Judge*, and BRYSON, *Circuit Judge*.

BRYSON, *Circuit Judge*.

LRV Acquisition Corp. is the owner of U.S. Patent No. 5,046,775, which is directed to fasteners for securing protective liners to the cargo beds of pickup trucks. LRV

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* Circuit Judge Rich heard oral argument in this case, but died on June 9, 1999. This case was decided by the remaining judges in accordance with Fed. Cir. Rule 47.11.

brought an infringement action against York Products, Inc., and York filed a counterclaim for unfair competition. While that action was pending, McClarin Plastics, Inc., filed a declaratory judgment action against LRV, seeking a declaration that McClarin did not infringe the '775 patent or, in the alternative, that certain claims of the '775 patent are invalid. The two suits were consolidated, with York and McClarin aligned as plaintiffs and LRV as defendant.

York and McClarin moved for summary judgment that they did not infringe the asserted claims of the '775 patent and that those claims are invalid. LRV moved for summary judgment on York's unfair competition claim. The district court granted York and McClarin's motion with respect to the issue of noninfringement, but denied their motion with respect to invalidity. The district court granted LRV's motion for summary judgment on York's unfair competition claim. Following the grant of summary judgment of noninfringement, York moved for attorney fees under 35 U.S.C. § 285, but the district court denied that motion.

York and McClarin raise four issues on appeal: they argue that the district court erred by granting summary judgment to LRV on York's unfair competition claim, by denying their motion for summary judgment of invalidity, by denying York's motion for attorney fees, and by failing to recognize the existence of a privilege between patent agents and their clients. LRV cross-appeals from the summary judgment that the accused fasteners do not infringe claims 1 and 31 of the '775 patent, either literally or under the doctrine of equivalents. We *affirm* the district court's judgment in all respects.

Appendix A

I. Literal Infringement

LRV contends that the court erred by holding, on summary judgment, that the accused fastener infringes independent claims 1 and 31 of the '775 patent. Claim 31 recites a combination consisting of (1) a truck cargo bed with side walls terminating in an upper edge having a substantially vertical flange, (2) a protective liner fitted to the truck bed, and (3) a fastener for securing the protective liner to the flange of the truck cargo bed. The fastener comprises a base plate for engagement with the surface of the liner and a locking tongue that is attached to the base plate and serves to clamp the liner to the truck bed and secure it over the flange. Claim 1 simply recites the fastener of claim 31 in more general terms. Material to the question of infringement is the following language that appears in both claims 1 and 31:

> said cam surface [of the fastener] being of arcuate configuration and operable to slide over said panel [*i.e.*, the truck bed liner] upon insertion of said fastener . . . to effect a mechanical leveraging of said tongue and causing said clamping surface to bear against said flange thereby providing both downward and horizontal locking forces to said panel relative to said supporting element [*i.e.*, the truck bed].

During prosecution of the '775 patent, the examiner rejected application claims 1 and 27. Application claim 1 was rejected under 35 U.S.C. § 102 as anticipated by either French patent No. 1576385 or a United States patent to

Raymond, and application claim 27 was rejected under 35 U.S.C. § 103 as unpatentable over a United States patent to Edwards in view of the Raymond reference.

Application claims 1 and 27 were canceled and rewritten as application claims 31 and 32 in order to overcome the examiner's rejections. Neither application claim 1 nor application claim 27 contained the above-quoted language from issued claims 1 and 31, but that language did appear in both rewritten application claims 31 and 32, which eventually issued as claims 1 and 31. In addition to rewriting application claims 1 and 27, the applicant submitted the following commentary regarding the significance of the Raymond and French references:

> Neither the Raymond nor the French reference teaches or suggests the provision of a fastener having a locking tongue comprising . . . a cam surface. Moreover, the arcuate configuration of the cam surface being operable to slide over the panel upon insertion of the fastener as required in the claims is lacking in the prior art. Consequently, the mechanical leveraging which causes the clamping surface to bear against the flange to provide both downward and horizontal locking forces is neither taught nor suggested by the prior references.

Both rewritten application claims 31 and 32 and the applicant's argument reflect that the applicant distinguished his invention from the prior art on the ground that his invention, unlike prior art fasteners, employs a clamping

surface that bears against the flange in a way that produces both downward and horizontal locking forces. Further evidence that the applicant purposely drew that distinction is found in the applicant's information disclosure statement, in which the applicant disclosed U.S. Patent No. 4,595,229 (the '229 patent). The applicant explained that the '229 patent discloses "a C-type clamp" that does not "effect pull-down of liner against truck rail."

The prosecution history of the '775 patent establishes that claims 1 and 31 are properly construed to cover only fasteners that provide downward locking forces, notwithstanding that in claims 1 and 31 "providing both downward and horizontal locking forces" appears in a "thereby" clause. The normal rule is that a "whereby" or "thereby" clause that "merely states the result of the limitations" in a claim does not limit the scope of the claim. *See, e.g., Texas Instruments, Inc.* v. *United States Int'l Trade Comm'n*, 988 F.2d 1165, 1172 (Fed. Cir. 1993). The "thereby" clauses of claims 1 and 31 do more than merely state the result of the claims' structural limitations, however — they serve to specify critical properties of the clamping surfaces of fasteners that fall within the scope of the claims. As the applicant unmistakably indicated during the prosecution of the '775 patent, only fasteners having clamping surfaces that effect downward locking forces are within the scope of claims 1 and 31.

Because the clamping surface of the accused fastener does not provide a downward locking force, the district court held that it is not within the literal scope of claims 1 and 31. The only downward force that the clamping surface of the

accused fastener is capable of generating is precisely the sort of downward force that the cited prior art fasteners are capable of providing: the clamping surface of the accused device will resist, to a certain degree, upward movement, because of the friction between the clamping surface and the flange. That type of force is not the "downward locking force" required by claims 1 and 31. It is, however, exactly the sort of downward force produced by the clamping surface disclosed in the '229 patent, which the applicant described as not "pull[ing] down [the] liner against [the] truck rail." In light of the prosecution history, we uphold the trial court's conclusion that claims 1 and 31 require a downward force that locks the liner into the cargo bed; a fastener such as the accused device, which generates downward force only to the extent of resisting upward movement, is therefore outside the literal scope of the claims.

II. Infringement under the Doctrine of Equivalents

The prosecution history discussed above estops LRV from claiming that the accused fastener is insubstantially different from the fastener recited in claims 1 and 31. The district court therefore correctly rejected LRV's claim that the accused fastener infringes the '775 patent under the doctrine of equivalents. During the prosecution of the '775 patent, as we have noted, the applicant made an unmistakable disclaimer of subject matter upon which the public is entitled to rely. In particular, the applicant disclaimed coverage of fasteners with clamping surfaces that, like the clamping surfaces of the accused fasteners, do not generate downward locking forces. Prosecution history estoppel therefore limits the scope of the doctrine of equivalents so as to bar any claim

of infringement with respect to fasteners, such as the accused fasteners, that lack clamping surfaces generating downward locking forces.

III. Invalidity

After the district court denied McClarin and York's motion for summary judgment that claims 1 and 31 of the '775 patent are invalid, LRV sought summary judgment in its favor on the invalidity issue. McClarin and York contested LRV's motion on justiciability grounds, arguing (1) that York had raised invalidity only as an affirmative defense and that the court's infringement ruling obviated the need for a ruling on that affirmative defense, and (2) that after the court's infringement ruling, McClarin no longer had standing to pursue a declaration that the '775 patent is invalid. The district court agreed with York and McClarin and dismissed both McClarin's request for a declaratory judgment that the claims of the '775 patent are invalid and LRV's motion for summary judgment on that issue.

York and McClarin argue on appeal that the district court improperly denied their motion for summary judgment that claims 1 and 31 of the '775 patent are invalid. It is well established, however, that we do not have jurisdiction to review orders denying motions for summary judgment. *See, e.g., Parker Bros.* v. *Tuxedo Monopoly, Inc.*, 757 F.2d 254, 255 (Fed. Cir. 1985). Had the district court granted LRV's motion for summary judgment on the invalidity issue, we would have had jurisdiction to consider an appeal from that judgment. There is no such judgment, however, because the district court dismissed LRV's motion for summary

judgment on McClarin's invalidity claim. The court took that action without objection from York and McClarin, and in fact at their urging. We therefore do not consider the arguments of York and McClarin that claims 1 and 31 of the '775 patent are invalid.

IV. Unfair Competition

The district court granted LRV's motion for summary judgment on York's claim of unfair competition. York's theory, in essence, is that LRV filed a baseless and frivolous action for patent infringement and that York should be compensated for the costs it incurred in defending against that action. Under controlling state law, a necessary element of York's claim is interference with or harm to contractual or prospective contractual relationships. As the district court noted, York has presented no evidence material to that element of its unfair competition claim. Accordingly, the district court properly granted summary judgment for LRV on York's unfair competition claim.

V. Attorney Fees

York seeks attorney fees under 35 U.S.C. § 285, which empowers the court to award attorney fees in exceptional cases arising under the patent laws. The district court decided that this was not an exceptional case. We review that finding for clear error. *See, e.g., L.A. Gear, Inc.* v. *Thom McAn Shoe Co.*, 988 F.2d 1117, 1128 (Fed. Cir. 1993).

The district court did not commit clear error in determining that this is not an exceptional case. A case is

exceptional within the meaning of section 285 if a patentee intentionally, recklessly, or with gross negligence filed and prosecuted a baseless infringement action. *See, e.g., Machinery Corp. of Am.* v. *Gullfiber AB*, 774 F.2d 467, 473 (Fed. Cir. 1985). Of course, gross negligence in filing and prosecuting the infringement action is not established simply because LRV lost on the merits. LRV acted pursuant to the opinion of a licensed patent attorney that the accused fastener infringed the asserted claims of the '775 patent, and the district court found that LRV "plainly believed that the '775 patent claims in issue were broad enough to cover the accused fastener." On the merits, LRV's infringement claim, although ultimately unsuccessful, was not frivolous. The district court was therefore justified in denying York's request for attorney fees under section 285.

VI. Privilege

York asks this court to recognize, for the first time, the existence of a privilege between patent agents and their clients. We decline to consider that question, because York has failed to demonstrate that the district court's failure to recognize such a privilege constituted reversible error, *i.e.*, even assuming that such a privilege does exist, York has not established that the district court's failure to recognize it was harmful. Indeed, it is not clear how York's claim of privilege even relates to any aspect of the judgment that was unfavorable to York. That issue is therefore not properly before us for decision in this case.

Appendix A

United States Court of Appeals
for the Federal Circuit

98-1454, -1455

McCLARIN PLASTICS, INC. and
YORK PRODUCTS, INC.,

Plaintiffs-Appellants,

v.

LRV ACQUISITION CORPORATION,

Defendant-Cross Appellant.

JUDGMENT

Appeals from the United States District Court for the Middle District of Pennsylvania in 93-CV-442, Judge Thomas I. Vanaskie.

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

AFFIRMED

ENTERED BY ORDER OF
THE COURT

s/ Jan Horbaly
Jan Horbaly, Clerk

DATED: JUL 12, 1999

ISSUED AS A MANDATE: AUGUST 11, 1999

APPENDIX B — MEMORANDUM AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF PENNSYLVANIA DATED MARCH 4, 1998 AND FILED MARCH 5, 1998

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

3:CV-93-0442
(JUDGE VANASKIE)

McCLARIN PLASTICS, INC., and
YORK PRODUCTS, INC.,

Plaintiffs

v.

LRV ACQUISITION CORPORATION

Defendant

MEMORANDUM

This protracted litigation began as an action for patent infringement by LRV Acquisition Corporation ("LRV") against York Products, Inc. ("York"). LRV has moved for summary judgment on York's counterclaims for unfair competition, trade disparagement, and tortious interference with existing and prospective business relationships. These claims, according to York, are "based on bad faith litigation [by LRV] for suing on a patent that is not infringed and is invalid which LRV chooses to ignore." (Response to LRV's Summary Judgment Motion (Dkt. Entry 136) at 2.) Because

York has failed to present evidence sufficient to permit a rational trier of fact to conclude that LRV acted in bad faith in suing York for infringement and defending the validity of its patent, LRV's summary judgment motion will be granted.

BACKGROUND[1]

LRV is the owner by assignment of United States Patent No. 5,046,775 (the '775 Patent), issued by the Patent and Trademark Office ("PTO") on September 10, 1991. The subject of the '775 Patent is a fastening device for use in combination with sheet form panels and bedliners for the cargo bodies of pickup trucks. The fastener claimed by the '775 Patent is intended to be inserted through an aperture in the bedliner to secure the bedliner to the cargo bed of the pickup truck without the necessity of drilling holes in the cargo bed sidewalls. A reexamination certificate was issued for the '775 Patent on December 14, 1993.[2]

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1. Accompanying LRV's Summary Judgment Motion was a statement of undisputed material facts, as required by Local Rule of Court 56.1. York's response to this statement addresses only five of the 30 separately-numbered paragraphs. In accordance with Local Rule 56.1, the 25 paragraphs to which no response was asserted will be accepted as true for purposes of the summary judgment motion. In setting forth the background for this decision on LRV's Summary Judgment Motion, I have also drawn from the opinion filed in this matter on February 25, 1998, granting summary judgment in favor of York on the infringement issue, but denying York's summary judgment motion on its challenge to the validity of LRV's patent.

2. The invention in question and the history of the prosecution of the '775 Patent are set forth more fully in the Memorandum opinion filed in this matter on February 25, 1998.

Appendix B

York is a Pennsylvania corporation having its principal place of business in Hanover, Pennsylvania. York sells pickup truck bedliners that are manufactured by McClarin Plastics, Inc.[3] York supplies a fastener with some of the bedliners that it sells. York secured a patent for these fasteners on September 29, 1992, Patent No. 5,150,940 (the '940 Patent). The fasteners are made by McClarin. LRV has contended that the McClarin-made fasteners supplied by York with various bed liners infringe the '775 Patent.[4]

Prior to the commencement of this litigation, LRV gave written notice to York that LRV believed that York's fastener infringed the '775 Patent. York, through its counsel, consulted with Atty. E. Wallace Breisch with respect to the infringement accusation. In a letter dated May 11, 1992, Atty. Breisch opined that the specification and claims in issue in the '775 Patent failed to comply with 35 U.S.C. § 112. Generally, Breisch found that the specification of the '775 Patent did not sufficiently disclose the invention to enable

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3. McClarin Plastics is also a party to this litigation. While there are factual disputes as to the nature of the relationship between York and McClarin, those disputes are not material to the issues presented on LRV's Summary Judgment Motion.

4. LRV unsuccessfully sought reexamination of the '940 Patent covering the York fastener. One of the grounds on which reexamination had been sought was that the York fastener was covered by the '775 Patent. The PTO rejected this assertion and issued a reexamination certificate on March 29, 1994. (Copies of the '940 Patent, LRV's reexamination request, and the re-examination certificate are attached as Exhibits 1 through 3 to the Motion for Summary Judgment filed on behalf of McClarin Plastics and York on June 17, 1996 (Dkt. Entry 145).

one skilled in the relevant art to practice it; that the language in the '775 Patent claims was not sufficient to particularly point out and distinctly claim the subject matter which LRV regarded as its invention; and that the fasteners claimed by the '775 Patent were not operable. Atty. Breisch also opined that, in any event, the York fastener did not infringe the '775 Patent.[5] A copy of Atty. Breisch's letter was sent to LRV in July of 1992.

Undeterred by Atty. Breisch's analysis, LRV brought suit against York in the United States District Court for the Southern District of Ohio on August 14, 1992. York filed a counterclaim, which it titled "COUNTERCLAIM FOR UNFAIR COMPETITION . . . .[6] In ¶ 4 of its counterclaim, York asserted:

> Prior to filing the Complaint LRV . . . [was] on actual and/or constructive notice that York's Clip-Lok fastener did not infringe the '775 Patent and further, that the '775 Patent was obtained without complying with the requirements of 35 USC § 112.

In ¶ 6, of its counterclaim, York alleged:

> Without privilege to do so, officers, agents or employees of LRV . . . have intentionally

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5. A copy of Atty. Breisch's letter is attached as Exhibit "B" to York's Response to LRV's Summary Judgment Motion.

6. A copy of the counterclaim is attached as Exhibit "A" to York's Response to LRV's Summary Judgment Motion.

> disparaged the good name and reputation of York . . . with York's distributors by tortiously interfering with York's existing business relationships to discourage or prevent sales to consumers of York products.[7]

During the course of discovery LRV inquired of York as to the bases for its counterclaim. Both in responses to written interrogatories and through the testimony of a corporate designee, York indicated that its counterclaim was based upon (a) a conversation between LRV's general manager, Kenneth Leffel, and James Hillyer, an employee of a leading bedliner manufacturer and potential customer of York, in the fall of 1992, during which Mr. Leffel expressed his opinion that LRV would make an example of York and show it "that nobody was going to be able to infringe on that patent." (Leffel Dep. at 30, attached at Tab 13 to the Appendix of Exhibits in support of LRV's Summary Judgment Motion (Dkt. Entry 124)); (b) the issuance of a press release in connection with the commencement of the patent infringement suit against York; and (c) inquiries

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7. York named several parties as defendants to its counterclaim, but served only LRV. On March 29, 1993, McClarin Plastics filed an action in this Court, seeking a declaratory judgment that the LRV patent claims in issue were invalid or, alternatively, that it had not infringed those claims. McClarin Plastics, however, did not assert a claim for unfair competition. Eventually, the action filed in the Southern District of Ohio was transferred to this Court and consolidated with the action filed by McClarin Plastics. In responding to an amended complaint filed by LRV in the Southern District of Ohio that added McClarin as a defendant to the patent infringement cause of action, McClarin Plastics did not assert a counterclaim.

purportedly made to York about whether it was "doing something wrong — apparently having been told so by [LRV] representatives . . ." when LRV should have known that York had not infringed its patent. (York's response to LRV's Interrogatory # 5, a copy of which is included in the Appendix to LRV's Summary Judgment Motion at Tab 5.)[8]

In its response to paragraph 13 of the LRV statement of undisputed facts, York asserts that the "basis for its claim is bad faith in alleging infringement and other conduct as set forth in the answers to interrogatories and explained in its response brief and exhibits annexed thereto." York's opposition brief specifically refers to the Breisch opinion letter of May 11, 1992; the deposition testimony and declaration of Atty. Robert Stebens, who was responsible for submitting the application for the '775 Patent on behalf of LRV, but who was removed as the prosecuting attorney shortly after its submission; testimony of Atty. Robert Patch and Patent Agent Clifford Poff, who were involved in the prosecution of the '940 Patent on behalf of York; evidence that a model used by LRV in a meeting with the PTO Examiner after the original application for the '775 patent had been rejected was misleading; LRV's failure to secure advice from "an independent patent attorney" prior to commencing suit; and the public dissemination of the infringement suit by LRV's national sales manager despite

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8. York had also complained that LRV's national sales manager, Tracy Heater, had disparaged York in an attempt to convince Kenneth Thompson, the president of a customer of York, to switch to LRV. Thompson's deposition testimony failed to confirm this assertion. (Pertinent excerpts of Mr. Thompson's deposition testimony are included at Tab 11 to the Appendix in support of LRV's Summary Judgment Motion).

the fact that she did not compare the LRV fastener with the accused device.

In response to LRV's inquiries as to damages alleged to have been sustained as a result of the causes of action set forth in its counterclaim, York stated that it was seeking recovery of "[t]he cost and charges for this suit, the cost and charges for appropriate advertising following the conclusion of the suit and the value of the time devoted by Todd Kennedy [York's President] to defending baseless charges of infringement made for improper purposes." (Answer to LRV Interrogatory # 17 included under Tab 14 of the Appendix of Exhibits filed in support of LRV's Summary Judgment Motion.) Significantly, York has produced no evidence of the loss of any customer or sale as a result of the alleged unfair competition, trade disparagement or tortious interference with business relationships. (LRV Statement of Undisputed Facts (Dkt. Entry 123) at ¶ 30 and York's response thereto.)[9]

After LRV moved for summary judgment on York's counterclaim, York moved for summary judgment for the third time on the infringement and patent validity issues.[10]

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9. In its response to Paragraph 30 of the LRV statement of undisputed facts, York contended that the costs it has incurred in connection with this litigation "has adversely affected York's ability to compete in the marketplace . . . ." York, however, has not submitted any evidence to quantify the purported adverse impact on its competitive efforts.

10. The procedural history of this case is more fully set out in the opinion filed in this matter on February 25, 1998, familiarity with which is assumed.

Appendix B

An evidentiary hearing was conducted for purposes of construing the patent claims at issue in this litigation.[11] Following the *Markman* hearing, LRV moved for summary judgment on the infringement issue, but not on the validity question. In a comprehensive opinion filed on February 25, 1998, I construed the patent claims in issue and determined that York and McClarin Plastics were entitled to a decree that the accused device did not infringe the claims of the '775 Patent in issue. I also ruled that York and McClarin Plastics were *not* entitled to summary judgment on the validity question.[12] It is in this context that LRV's summary judgment motion on the York counterclaim must now be decided.

DISCUSSION

Summary judgment should be granted when the "pleadings, depositions, answers to interrogatories, and

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11. In *Markman v. Westview Instruments, Inc.*, 116 S.Ct. 1384 (1996), the Court ruled that it is the responsibility of the trial court to determine the scope of patent claims, and that, if necessary, the trial court should conduct an evidentiary hearing for purposes of receiving evidence extrinsic to the patent and its prosecution history for purposes of construing the claims in issue. The hearing in this matter was conducted in accordance with *Markman* and over York's vigorous objection.

12. In denying summary judgment as to the validity of the '775 Patent, I noted that I was "inclined to hold that no reasonable juror could find the LRV patent claims invalid on the grounds advanced by York," but declined to grant summary judgment in favor of LRV in view of the fact that it had not filed for summary judgment on the validity question. (February 25, 1998 Memorandum (Dkt. Entry 203) at 49 n.24.)

admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material facts and . . . the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). A fact is "material" if proof of its existence or non-existence might affect the outcome of the suit under the applicable law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986); *Charlton v. Paramus Bd. of Educ.*, 25 F. 3d 194, 197 (3d Cir.), *cert. denied*, 513 U.S. 1022 (1994).

"Summary judgment will not lie if the dispute about a material fact is 'genuine,' that is, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Anderson*, 477 U.S. at 248. Accordingly, Rule 56 requires the entry of summary judgment, after adequate time for discovery, where a party "fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986).

Initially, the moving party must show the absence of a genuine issue concerning any material fact. *Celotex*, 477 U.S. at 329. All doubts as to the existence of a genuine issue of a material fact must be resolved in favor of the nonmoving party. *White v. Westinghouse Elec. Co.*, 862 F.2d 56, 59 (3d Cir. 1988); *Continental Ins. Co. v. Bodie*, 682 F.2d 436 (3d Cir. 1982). Once the moving party has satisfied its burden, the nonmoving party "must present affirmative evidence to defeat a properly supported motion for summary judgment." *Anderson*, 477 U.S. at 256-57. The affirmative evidence must be more than conclusory allegations or

denials. Where, as here, the moving party has suggested the absence of evidence to support a claim on which the nonmoving party has the burden of proof, the nonmoving party must point to competent evidence that would permit a trier-of-fact to rule in its favor. *Schoch v. First Fidelity Bancorporation*, 912 F.2d 654, 657 (3d Cir. 1990). Because York bears the burden of persuasion on its counterclaim, LRV is entitled to summary judgment if the evidence, viewed in the light most favorable to York, is insufficient to enable a rational trier-of-fact to impose liability on LRV on any of the claims asserted in York's counterclaim. *Id.*

In its brief in opposition to LRV's summary judgment motion, York has explicitly articulated as the basis for its counterclaim LRV's purported "bad faith litigation for suing on a patent that is not infringed and is invalid . . . ." (Dkt. Entry 136 at 2.) Pursuit of patent infringement litigation in bad faith with attendant efforts to publicize the litigation for the purpose of harming the alleged infringer has been regarded as actionable "unfair competition." *See e.g.*, *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709-10 (Fed. Cir. 1992); *Elkhart Brass Mfg. Co. v. Task Force Tips, Inc.*, 867 F. Supp. 782, 788 (N.D. Ind. 1994). Such conduct is viewed as falling within the recognized torts of interference with existing and prospective contractual relationships. *See Coal Processing Equip., Inc. v. Campbell*, 578 F. Supp. 445, 463-64 (S.D. Ohio 1981).

Pennsylvania has expressly adopted the tests set forth in the Restatement (Second) of Torts for intentional interference with the performance of a contract by a third

person. *See Adler, Barish, Daniels, Levin & Creskoff v. Epstein*, 482 Pa. 416, 431, 393 A.2d 1175 (1978), *cert. denied*, 442 U.S. 907 (1979). Section 766 of the *Restatement (Second) of Torts* provides:

> One who intentionally and improperly interferes with the performance of a contract (except a contract to marry) between another and a third person by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.

Pennsylvania also recognizes as actionable the wrongful interference with prospective business relations. *See, e.g., Thompson Coal Co. v. Pike Coal Co.*, 488 Pa. 198, 208, 412 A.2d 466, 471 (1979). "The elements of this tort are: (1) a prospective contractual relation; (2) intent to harm the plaintiff by preventing the relation from occurring; (3) absence of privilege or justification on the defendant's part; and (4) resulting damage." *Schulman v. J.P. Morgan Inv. Management, Inc.*, 35 F.3d 799, 808 n.16 (3d Cir. 1994).[13]

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13. The Restatement (Second) of Torts version of the tort of interference with prospective contractual relations looks to whether the defendant's conduct was "proper," whereas the Pennsylvania courts have continued to use the rubric of the original Restatement of Torts, which examined whether the alleged interference was "privileged" or "justified." *See University Graphics, Inc. v. Pro-Image Corp.*, 913 F. Supp. 338, 345 n.10 (M.D. Pa. 1996).

In this case, York has not identified any existing or prospective customer that was lost as a result of LRV's infringement suit and the accompanying publicity. While contending that scarce resources that would have been used to enhance its competitive position have been diverted to this litigation, York has not presented any evidence to quantify the alleged adverse impact on the development of its business. Instead, York seeks to recover the litigation expenses incurred in this matter under the aegis of an unfair competition claim.

In this regard, York's position resembles more a claim for attorneys' fees under 35 U.S.C. § 285 than a claim for unfair competition.[14] Indeed, *Machinery Corp. of Am. v. Gullfiber AL* 774 F.2d 467 (Fed. Cir. 1985), cited by York as "illustrating the type of bad faith on the part of the patentee for which relief will be granted," (York Response Br. (Dkt. Entry 136) at 3), concerned *only* a request for counsel fees under 35 U.S.C. § 285. Other cases cited by York that arose in the context of intellectual property litigation have been concerned with the disruption of commercial relationships — the focus of the torts of wrongful interference with existing and prospective contractual relationships — and have not addressed recovery of counsel fees under the tort of unfair competition. Indeed, none of the cases cited by York held that litigation expenses constitute the requisite "actual damage" resulting from the claimed interference with

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14. Section 285 provides:

> The court in exceptional cases [involving claims of patent infringement or patent validity] may award reasonable attorney fees to the prevailing party.

business relations based on purportedly sham litigation.[15] It thus appears that summary judgment could be entered in favor of LRV on the ground that there is no evidence to support a conclusion that LRV's alleged "unfair competition" caused York to suffer any compensable damage.[16]

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15. Significantly, *Coal Processing Equipment*, cited at page 4 of York's response to LRV's Summary Judgment Motion, separately addressed a claim of unfair competition under Ohio common law and a request for attorneys' fees under 35 U.S.C. § 285. 578 F.Supp. at 463-67. While finding that the publicizing of a meritless patent infringement action caused a substantial disruption in the plaintiff's business, the court did not suggest that expenses incurred in the patent infringement action would be a compensable element of damages for unfair competition. The fact that the court addressed separately the request for counsel fees under 35 U.S.C. § 285 indicates that litigation costs would not be the type of harm that may be redressed in an unfair competition action.

16. There are other causes of action that may support a claim to recover litigation expenses. For example, Pennsylvania, by statute, authorizes an action to recover litigation expenses and other damages caused by the wrongful use of civil proceedings, including the pursuit of an action "in a grossly negligent manner or without probable cause and primarily for a purpose other than . . . adjudication of the claim [on] which the proceedings are based." 42 Pa. C.S.A. § 8351(a)(1). York is essentially making a claim to this effect in this litigation. But before such a claim may be brought under Pennsylvania law, the proceedings alleged to have been commenced wrongfully must have terminated in favor of the person seeking recovery of litigation expenses and other damages. *Id.* In other words, a cause of action under 42 Pa. C.S.A. § 8351 may not be asserted as a counterclaim in the cases that is alleged to have been brought in bad faith. *See Zappala v. Hub Foods, Inc.*, 683 F. Supp. 127, 130-131 (W.D. Pa. 1988).

Assuming, however, that expenses incurred in defending against a patent infringement lawsuit may be compensable in an unfair competition counterclaim against the patentee based upon the contention that the infringement action was brought in bad faith, LRV is entitled to summary judgment. Succinctly stated, York has failed to present evidence that would support a conclusion that LRV's pursuit of its patent infringement claims was improper, unjustified, or not privileged.

The *Restatement (Second) of Torts* lists a number of factors to be taken into account in determining whether interference with another's business relations may support recovery of damages proximately caused thereby.[17] Among the factors to consider are the nature of the defendant's conduct, the defendant's motive, the interests of the plaintiff, the interests sought to be advanced by the defendant, the social interests in protecting the defendant's freedom of action, and the relations between the parties. *See Restatement (Second) of Torts* § 767. In the context of ascertaining whether a particular interference with a prospective business relationship is "justified or privileged," the Pennsylvania Supreme Court has observed:

> The absence of privilege or justification . . . is closely related to the element of intent. As stated by Harper & James, The Law of Torts, § 6.11, at 513: '. . . where, as in most cases, the defendant acts at least in part for the purpose of protecting

17. The Pennsylvania courts have looked to the Restatement as persuasive authority in the context of the tort claims asserted by York. *See Schulman*, 35 F.3d at 809.

> some legitimate interest which conflicts with that of the plaintiff, a line must be drawn and the interests evaluated. This process results in according or denying a privilege which, in turn, determines liability.' What is or is not privileged conduct in a given situation is not susceptible to precise definition. Harper & James refer in general to interferences which 'are sanctioned by the "rules of the game" which society has adopted', and to 'the area of socially acceptable conduct which the law regards as privileged . . . .' "

Glenn v. Point Park College, 441 Pa. 474, 272 A.2d 895, 899 (1971). Good faith pursuit of litigation is generally regarded as part of the "rules of the game," and thus not actionable, even though the actor may reasonably anticipate that the litigation will harm the other party's business.

Section 773 of the *Restatement (Second) of Torts* explicitly acknowledges that the assertion in good faith of a legally protected interest, or even threatening in good faith to protect the interest by appropriate means, is not wrongful conduct.[18] A patentee's right to safeguard the exclusivity

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18. Section 773 of the *Restatement (Second) of Torts* provides:

> One who, by asserting in good faith a legally protected interest of his own or threatening in good faith to protect the interest by appropriate means, intentionally causes a third person not to perform an existing contract or enter into a prospective contractual relation with another, does not interfere improperly with the other's relation if the actor believes that his interest may otherwise be impaired or destroyed by the performance of the contract or transaction.

accompanying the issuance of a patent is given express recognition in the law of unfair competition. As explained in *Coal Processing Equipment*:

> The general rule is that a patent holder has a right to protect his interest by notifying alleged infringers of his claims, even before a decree in his favor has been obtained. He may threaten suit against an alleged infringer, but he must act in good faith, not attempt to injure a competitor's business, and confine himself to publicizing only the information necessary for his protection.

578 F. Supp. at 463. Because a patent is presumed to be valid, 35 U.S.C. § 282, a patentee "has the presumption of good faith as to his infringement filing . . . ." *Elkhart*, 867 F. Supp. at 788; *accord Lucasey Mfg. Corp. v. Anchor Pad Int'l, Inc.*, 698 F. Supp. 190, 193 (N.D. Cal. 1988). Thus, the accused infringer must show that the patentee acted in bad faith "in order to prove an allegation of unfair competition stemming from accusations of patent infringement." *Coal Processing Equip.*, 578 F. Supp. at 465.

In this case, York argues that there is at least a triable issue as to the *bona fides* of LRV in pursuing its infringement action. In support of this assertion, York points to opinions from witnesses on its side of the dispute expressing the view that the '775 Patent is invalid and, in any event, not infringed by York's fastener. But the fact that York has procured an "independent" opinion of "patent expert" E. Wallace Breisch, as well as the testimony of the attorney and patent agent prosecuting York's '940 Patent, does not support an inference

that LRV acted in bad faith. The term "independent" to describe an expert retained by counsel is an oxymoron. It is anticipated that an opinion from an expert retained by counsel, which counsel proceeds to disclose, would coincide with the position advocated by counsel, just as it is to be anticipated that the opinions expressed by the attorney and patent agent prosecuting the '940 Patent would be consistent with the position of counsel defending the infringement claim.

The focus of the bad faith inquiry is not on what evidence the alleged infringer assembles and discloses, but what evidence the patentee has available to it that supports an infringement claim. In this case, the evidence presented by LRV included the opinions of a well-credentialed mechanical engineer and an "independent" patent attorney. Such evidence provided an ample foundation for a good faith belief that York's fastener infringed the '775 Patent.[19]

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19. York has also relied upon the deposition testimony and declaration of the attorney who originally prosecuted LRV's patent application, Robert Stebens. In an opinion filed on October 30, 1995, I held that the duty of loyalty inherent in the attorney-client relationship precluded Attorney Stebens from effectively acting as an expert witness adverse to his former client. In this regard, Attorney Stebens did not offer testimony as to factual events pertaining to the prosecution history for the '775 Patent. Nor did his testimony and declaration concern advice he gave to LRV as to the validity of the '775 Patent and the issue of infringement. Instead, he was expressing opinions on the penultimate issues in this litigation after having been discharged by LRV. As pointed out by LRV, York's reliance on Steben's deposition testimony and declaration in responding to LRV's summary judgment motion was wholly inappropriate.

York insists, however, that a simple visual comparison of the accused device with "LRV's patented structure" would "immediately apprise any fair-minded person that the fasteners are substantially different," thereby supporting an inference of bad faith on the part of LRV. (Response to LRV's Summary Judgment Motion (Dkt. Entry 136) at 7.) But, as pointed out by LRV, infringement is *not* to be determined by comparing the accused device with a preferred embodiment of the patented invention. Instead, infringement, either literally or by equivalence, is to be ascertained by comparing the accused device with the properly construed claims of the patent. *See SRI Int'l v. Matsushita Elec. Corp.*, 775 F.2d 1107, 1121 (Fed. Cir. 1985).

In this case, construction of the claims in issue required a careful review of the language of the claims, the patent specification, and the prosecution history, as well as consideration of extrinsic evidence. It was only because the claims in issue were construed to require a limitation not explicitly set forth in the claims that the accused device was determined to be non-infringing. Reasonable minds could indeed differ as to the conclusion reached on the proper construction of the claims in issue. Under these circumstances, a visual comparison of the accused device and the commercial embodiment of the '775 Patent could not support an inference of bad faith.

York also argues that bad faith could be inferred from the fact that LRV's president authorized the patent infringement suit without either examining the York fastener or seeking advice from "an independent patent attorney," but instead did so based upon the advice of LRV "insiders."

Appendix B

(Response to LRV's Summary Judgment Motion (Dkt. Entry 136) at 9.) The failure to secure advice of outside counsel, however, does not support an inference of bad faith. *Cf. Machinery Corp.*, 774 F.2d at 473 ("failure to obtain advice of counsel does not conclusively establish . . . a patentee's bad faith or itself make the case 'exceptional.' "). Clearly, the president of a company is entitled to rely on the company's most knowledgeable employees in forming a decision to bring a patent infringement suit. In a scenario of the type presented here, the burden is on the accused infringer to show that it was unreasonable for the company president to rely upon "insiders." For example, it may be unreasonable to rely on advice of insiders who have proved unreliable in the past, have shown ill will to the alleged infringer, or who are not knowledgeable in the field. In this case, the "insiders" include Ronald Snyder, the attorney who prosecuted the '775 Patent to its issuance. He certainly could not be regarded as lacking the requisite knowledge to make an informed opinion as to the infringement and validity issues. There is no evidence that the other "insiders" mentioned by York, LRV's general manager and its National Marketing Director, were unreliable. Nor is there any evidence to suggest that the "insiders" were motivated by spite or ill will towards York. In this regard, the fact that LRV's general manager, Kenneth Leffel, stated that LRV would "make an example" of York does not transform its pursuit of litigation for which there was an ample foundation into a bad faith endeavor.

An inference of bad faith may be appropriate where the patentee has threatened suit without intending to follow through or sent notices of infringement indiscriminately to all members of the industry or to the customers of the

patentee's competitor. *See Mallinckrodt*, 976 F.2d at 710. Bad faith may also be shown where there is evidence that during the prosecution history the patentee expressed either reservations as to patentability or an intent to harm a competitor, as opposed to securing the protection from competition afforded by a patent. *See Magnetic Eng'g & Mfg. Co. v. Dings Mfg. Co.*, 178 F.2d 866, 868 (2d Cir. 1950). Evidence of ill will between the patentee and accused infringer may also suffice. *Coal Processing Equip., supra.*

No evidence along these lines has been presented here. LRV plainly believed that the '775 Patent claims in issue were broad enough to cover the accused fastener. The language of the claims and the expert witness testimony presented by LRV substantiated this belief. There is *no* evidence in this case that LRV *knew* its infringement action was meritless.

Contrary to York's assertion, a jury in this case would not be called upon to decide whether its witnesses or LRV's witnesses are more credible in explaining the foundation or absence of a foundation for the lawsuit. Instead, the jury would be required to determine whether York has shown that LRV did not have an honest belief in the existence of the rights it asserted. Stated otherwise, York must show that LRV could not have believed in the correctness of its position. In the absence of evidence suggesting that a patentee knew its infringement action was meritless, a claim for unfair competition is not sustainable. *See Prudent Publ'g Co. v. Myron Mfg. Corp.*, 722 F. Supp. 17, 23, (S.D.N.Y. 1989); *Gemveto Jewelry Co. v. Jeff Cooper Inc.*, 568 F. Supp. 319, 336 (S.D.N.Y. 1983). "The mere fact that plaintiff did

not ultimately prevail on its claims does not mean that those claims were groundless." *Black Dog Tavern Co. v. Hall*, 823 F. Supp. 48, 60 (D.Mass. 1993). " '[I]t is not an actionable wrong for one in good faith to make plain to whomsoever that it is his purpose to insist upon what he believes to be his legal rights, *even though he may misconceive what those rights are*.' " *Mallinckrodt*, 976 F.2d at 710 (quoting *Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 314 (2d Cir. 1950)).

In this case, "lack of infringement was not so clear as to give rise to any rational inference of bad faith." *Falcon Lock Co. v. Best Universal Lock Co.*, 362 F.2d 221, 223 (9th Cir. 1966). Nor is there evidence that LRV did not honestly believe in the merit of its action. Finally, the few incidents of LRV publicizing its infringement action about which York complains are insignificant and do not support an inference that LRV was acting in bad faith. In other words, the existence of a reasonably plausible basis for LRV's position in this litigation, coupled with the absence of any evidence suggesting that it did not honestly believe in its position as well as the absence of any evidence that it sought to exploit its lawsuit to harm York, warrant granting LRV summary judgment on York's counterclaim. *See Elkhart*, 867 F. Supp. at 788 (summary judgment granted in favor of patentee on unfair competition claim arising out of patent infringement notices where defendant failed to rebut presumption of good faith); *Prudent Publ'g*, 722 F. Supp. at 23 (summary judgment granted in favor of copyright holder on unfair competition counterclaim where defendant failed to show that plaintiff knew its claim was without merit before it brought the lawsuit); *Black Dog Tavern*, 823 F. Supp. at 60

(defendant to unfair competition claim entitled to summary judgment where there was no evidence of bad faith).[20]

CONCLUSION

A patent holder is entitled to take action to prevent infringement of the important right of exclusivity that promotes the inventive process. In this case, there is no evidence to suggest that LRV did not honestly believe that its valid rights were being infringed by the York fastener. The fact that York has been denied summary judgment on the patent validity issue confirms LRV's good faith belief in its patent rights. The fact that limitations had to be read

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20. In the anti-trust context, an unsuccessful copyright infringement action exposes the copyright holder to potential liability for anti-competitive conduct only if *both* the infringement action was objectively baseless *and* the copyright holder's subjective motivation was to "interfere directly with the business relationships of a competitor, through the use [of] the governmental process — as opposed to the outcome of that process." *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993). LRV urges application of this two-part sham litigation test to assess the viability of York's common law unfair competition claims. Under this two-prong test for sham litigation, there would be no need to consider LRV's subjective motivation for bringing this litigation because it could not be said in this case that LRV's infringement action was "objectively baseless." Inasmuch as York has failed to present any evidence to suggest that LRV's motivation in bringing this lawsuit was to use the litigation process to interfere with York's business relationships, however, there is no need to consider whether the first prong of the two part definition of sham litigation — the absence of an objective basis for the lawsuit — is dispositive in the context of common law unfair competition claims.

into the '775 Patent claims in issue also confirms LRV's good faith belief in its infringement action. While York has presented evidence that shows that it put LRV on notice of York's position as to infringement and validity prior to the commencement of this protracted litigation, York has adduced no evidence that calls into question LRV's good faith in pursuing this litigation or in giving notice of its pendency. Accordingly, summary judgment on York's counterclaim will be granted in favor of LRV. An appropriate Order is attached.

s/ Thomas I. Vanaskie
Thomas I. Vanaskie
United States District Judge

Appendix B

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

3:CV-93-0442
(JUDGE VANASKIE)

McCLARIN PLASTICS, INC., et al.

Plaintiffs

v.

LRV ACQUISITION CORPORATION

Defendant

ORDER

NOW, THIS 4TH DAY OF MARCH, 1998, for the reasons set forth in the foregoing Memorandum, **IT IS HEREBY ORDERED THAT:**

1. The Motion of LRV Acquisition Corporation for Summary Judgment on the counterclaim of York Products, Inc. (Dkt. Entry 121) is **GRANTED.**

2. A scheduling conference shall be conducted in this matter by telephone on Thursday, March 26, 1998 at 1:30 p.m. Counsel for the plaintiffs shall be responsible for arranging the call to (717) 207-5720 and all counsel should be ready to proceed before the undersigned is contacted.

s/ Thomas I. Vanaskie
Thomas I. Vanaskie
United States District Judge

APPENDIX C — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DENYING PETITION FOR REHEARING DATED AND FILED AUGUST 4, 1999

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

ORDER

Before BRYSON, Circuit Judge, and SKELTON, Senior Circuit Judge.

A petition for rehearing having been filed by the APPELLANTS,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on August 11, 1999.

FOR THE COURT,

s/ Jan Horbaly
Jan Horbaly
Clerk

Dated: August 4, 1999

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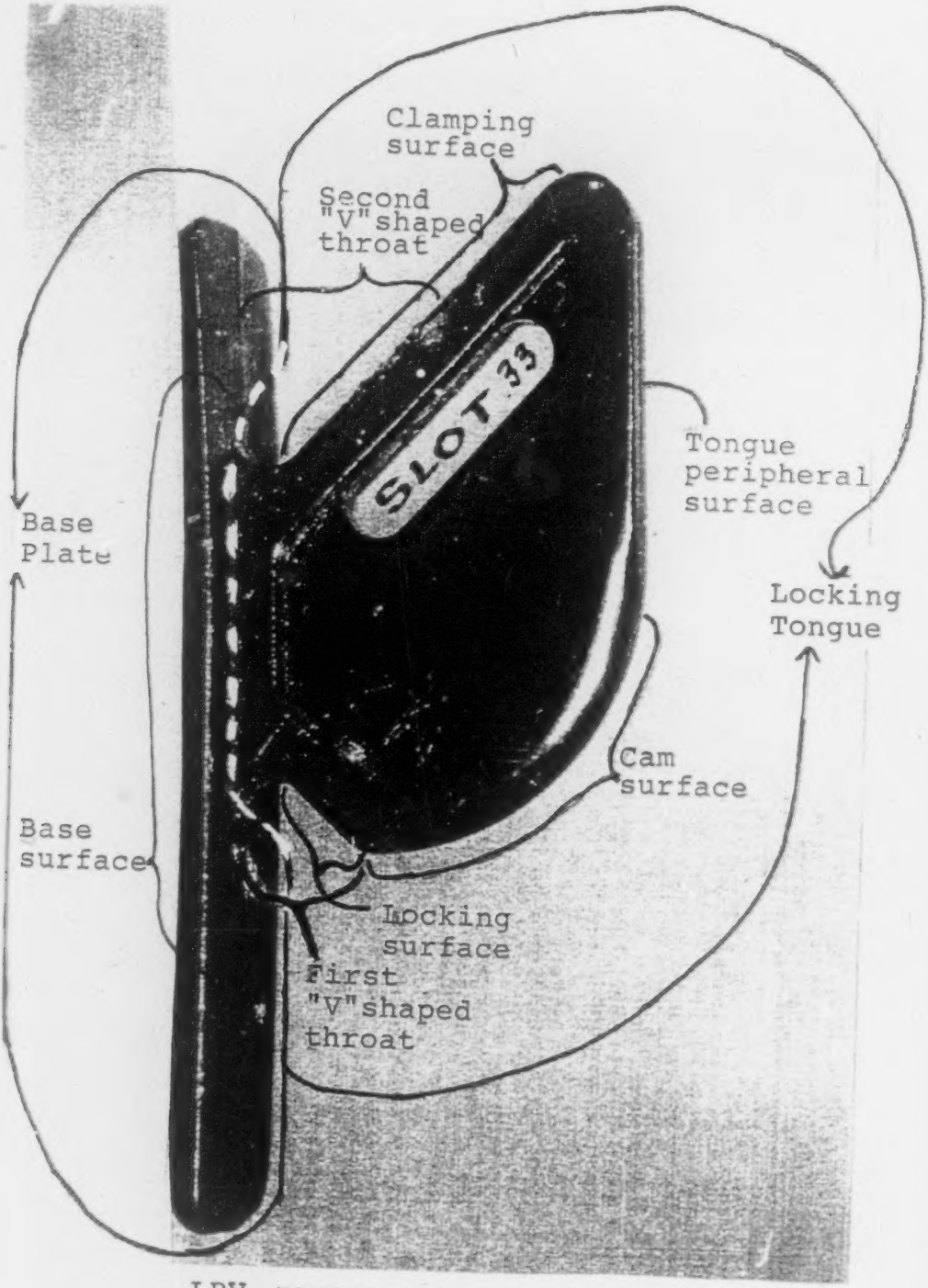
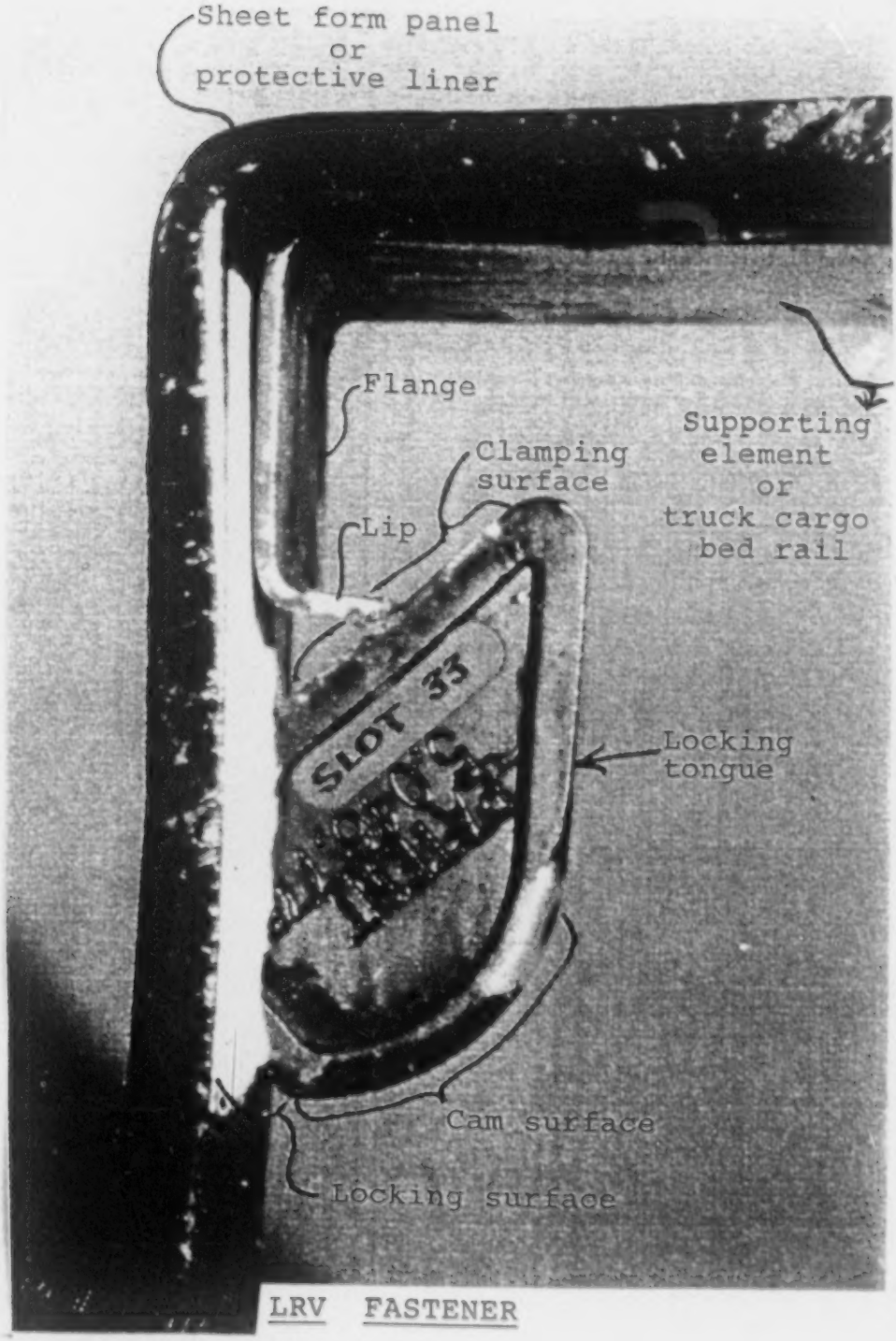
MCCLARIN PLASTICS V LRV ACQUISITION, 98-1454
(DCT - 93-CV-442)

APPENDIX D — FASTENERS



LRV FASTENER

Appendix D



LRV FASTENER

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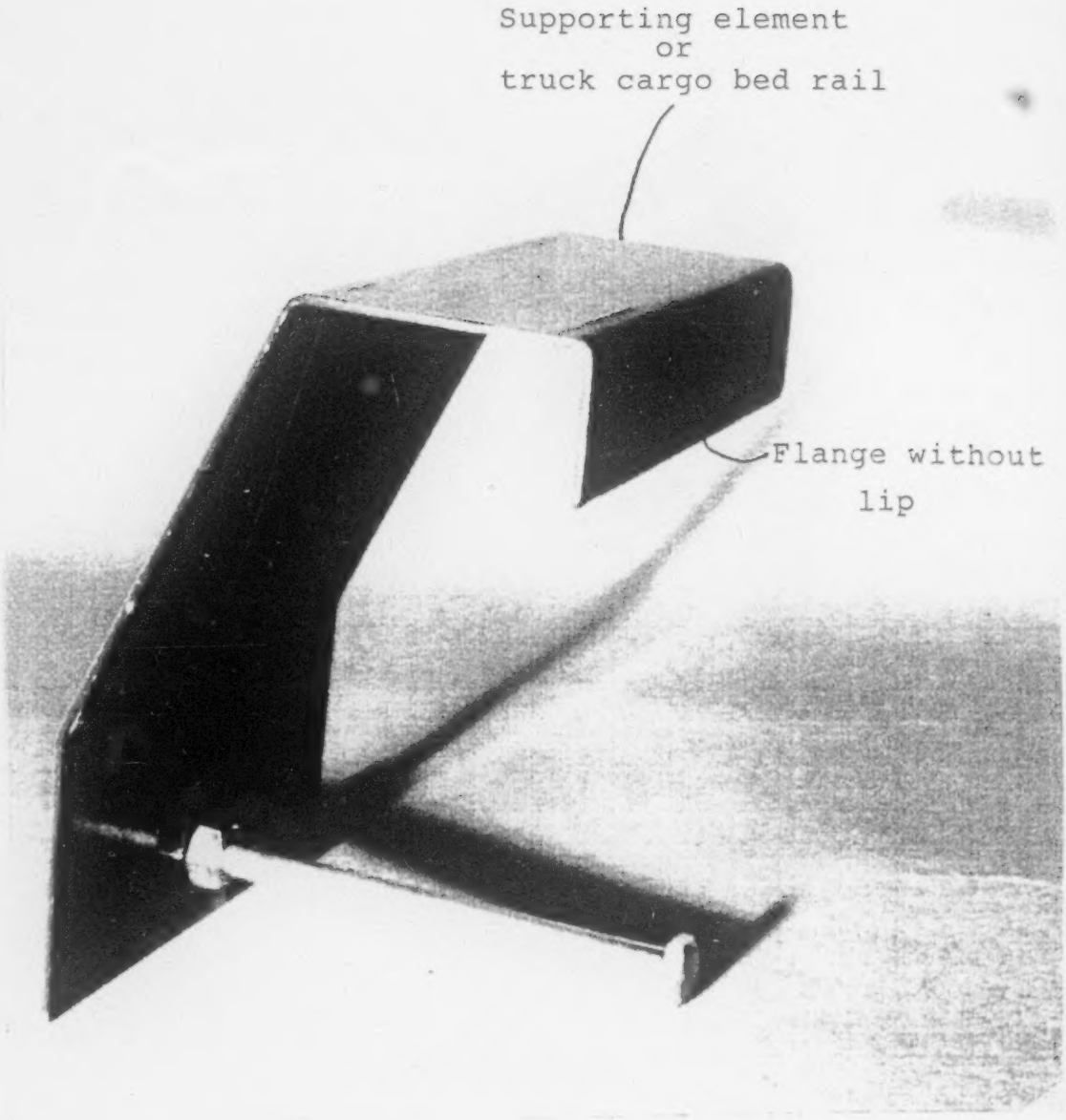
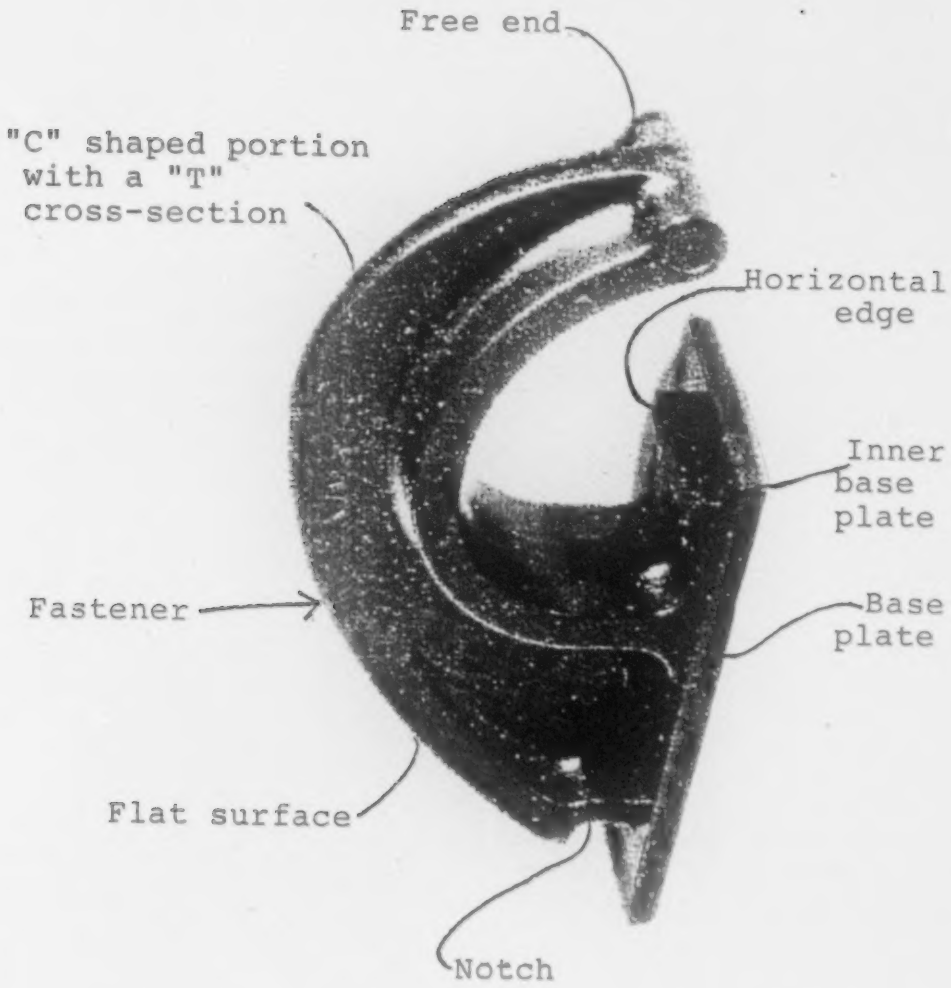


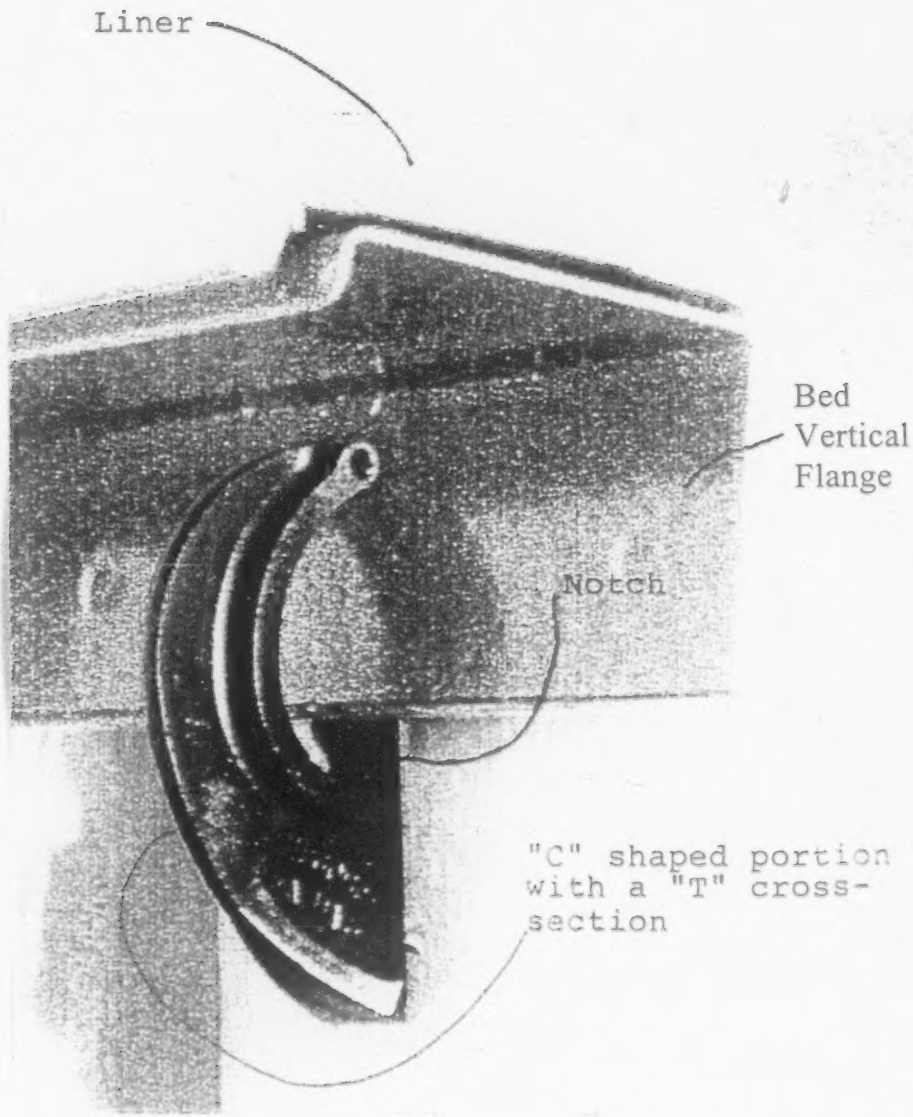
LRV FASTENER

Appendix D



YORK FASTENER

Appendix D



YORK FASTENER